MAXIMIZING YOUR CHILDREN'S OR GRANDCHILDREN'S INHERITANCE WHILE SUPPORTING THE MUSEUM

The Delaware Art Museum connects people to art, offering an inclusive and essential community resource that through its collections, exhibitions, and programs generates creative energy that sustains, enriches, empowers and inspires.

Many of our friends have expressed a desire to support our Mission going forward but do not want to disinherit children or grandchildren in the process. The Museum offers several gift strategies that allow you to both provide for your children or grandchildren and make a significant gift.

I would like to make a significant gift to the Museum, but I will have to pay estate taxes that already take assets away from my children. Is there a charitable way to help limit the estate tax bite without disinheriting my kids?

Gift and estate taxes have been in flux since 2001. We strongly encourage you to have your estate plan reviewed regularly by an attorney specializing in estate taxes to ensure that your plan continues to limit your tax burden while providing for your family and favorite charities. The good news is that any assets passed to the Museum are not subject to estate tax. With careful charitable planning, you can lower your estate tax bill, provide more for your children, and make a meaningful gift to the Museum.

Example: Frank is a long-time benefactor of the Museum. He has amassed assets worth over $25 million, which he would like to see benefit his children. Even with the estate tax at 35% and including a $5 million exemption (the law in 2012), Frank and his wife will owe the federal government in excess of $5 million in estate tax. Frank's financial advisors suggests that Frank set up a wealth replacement charitable remainder unitrust (WRT) to help lower his estate bill, make a significant gift to the Museum, and provide an inheritance to his kids.

Frank and his wife transfer $10 million in appreciated stock to the WRT, removing it from their estate and entitling Frank to a current income tax charitable deduction for a portion of the gift. The WRT then pays Frank and his wife 5% of its assets each year for life. Frank uses a portion of that payment each year to fund an irrevocable life insurance trust (ILIT). The ILIT uses the payments to purchase a second-to-die life insurance policy, payable to the children. When Frank and his wife pass away, the life insurance policy pays $10 million to his children, gift- and estate-tax free. The remainder in the WRT goes to the Museum as a gift. Frank has accomplished his goals of providing for his children and making a gift to the Museum, all while lowering his estate tax bill, since his taxable estate is now much smaller than it was before.

I heard that it is an ideal time to avoid estate tax through a charitable lead trust. How does that work?

A charitable lead trust (CLT) is a charitable giving vehicle that allows you to transfer assets to your children or grandchildren at reduced gift and estate tax cost, provided the trust makes a sufficient gift to the Museum over its term.

Example: Due to the changing estate tax rules, Stephanie speaks with her attorney to revisit her estate plan. Her estate is worth $20 million and she would like to transfer as much as possible to her daughter and the Museum. Her attorney recommends a non-grantor charitable lead trust. Stephanie transfers $5 million to the CLT, which pays the Museum $300,000 per year for the next 20 years ($6 million total). After 20 years, assuming 7% total return, the CLT ends and the remaining balance of over $7 million passes to Stephanie's daughter, gift- and estate-tax free. Stephanie's $5 million CLT has produced over $13 million in benefits for her family and the Museum. Stephanie's daughter actually ends up with a larger amount because her mother made a charitable gift!

I was recently told that retirement plan assets can be subject to both estate and income taxes at my death, resulting in very little passing to my children. How do I avoid this?

Retirement plan assets (IRAs, 401(k)s, 403(b)s, etc.) are subject to both estate and income taxes unless passed to a surviving spouse. By passing these assets to the Museum instead, and designating other assets for your children or grandchildren, you can avoid this income tax, thereby increasing their inheritance. Simply name “Delaware Art Museum” on the change of beneficiary form for your retirement plan.

For your Information

To learn more about creative gifts to maximize your children’s or grandchildren’s inheritance, contact us at 302.351.8526 or via email at legacy@delart.org. Additional information can also be found at our website, delart.org.

The Delaware Art Museum is dedicated to a donor-centered philanthropic planning approach. This means that we work with you and your advisors to ensure that your personal planning objectives for yourself and your family, both today and tomorrow, integrate with your support for your favorite charities, like the Delaware Art Museum. Only by looking at your philanthropy through this lens can we ensure that your gifts fit with your tax, estate, and financial planning. We look forward to working with you and your advisors.