

## GLOSSARY OF TERMS

**501(c)(3)** - Section of the Internal Revenue Code that designates an organization as charitable and tax-exempt. This designation is required to allow charitable gifts to receive 100% charitable tax deduction.

**APPRECIATED ASSETS** are assets that have a higher market value than their basis or tax purpose value. Such assets would, if sold by an individual or non-charitable organization at a price higher than their basis, potentially generate a taxable capital gain (either long-term or short-term depending on the holding period).

A **BENEFICIARY** is the person and/or organization that receives the benefits (usually assets or income) of the trust.

A **BEQUEST** is a gift of property or assets to a beneficiary as defined in a will.

A **BYPASS TRUST** is set up to avoid or bypass the surviving spouse's estate, which enables each spouse to use the federal estate tax exemption.

A **CHARITABLE LEAD TRUST** is almost the opposite of a charitable remainder trust. During the term or life of the charitable lead trust, an annuity or unitrust income interest is distributed each year to the designated charitable beneficiary and the assets are eventually transferred to the trustor's or grantor's designated non-charitable beneficiary(ies).

A **CHARITABLE REMAINDER ANNUITY TRUST** is a charitable remainder trust which is set up to pay a return or fixed annual percentage of 5 percent (or more) of the net fair market value of the assets placed in the trust. The trust assets are valued initially, at the time the property is placed in the trust. The trust assets are never revalued.

A **CHARITABLE REMAINDER UNITRUST** is a charitable remainder trust which is set up to pay a return or fixed annual percentage of 5 percent (or more) of the net fair market value of the assets placed in the trust. The trust assets are revalued annually.

A **CODICIL** is a written change or amendment made to a will.

**COST BASIS** is the original value of an asset for tax purposes (usually the purchase price), adjusted for stock splits, dividends and return of capital distributions. This value is used to determine the capital gain, which is equal to the difference between the asset's cost basis and the current market value. Also known as "tax basis".

An **ENDOWMENT** is the principal amount of gifts and bequests that are accepted subject to a requirement that the principal be maintained intact and invested to create a source of income for a foundation. Donors may require that the principal remain intact in perpetuity, or for a defined period of time or until sufficient assets have been accumulated to achieve a designated purpose.

The **EXECUTOR** is the person or institution named in a person's will who carries out the terms of the will.

The **GUARDIAN** is the person who is appointed by the Court to care for the person and/or estate of a minor child or incompetent person. One can nominate a guardian in a will, and though normally the court will honor that nomination, the Court has the right to agree or disagree.

A **LIFE INSURANCE TRUST** is usually set up for the purpose of excluding the proceeds of life insurance from the insured's and the spouse of the insured's estate for death tax purposes. It is an irrevocable trust.

A **LIVING TRUST** is a trust set up to operate during the life (and can operate after the death) of the one setting up the trust. It can be revocable, or, in other words, you can change your mind and have some or all of the trust property returned to you during your life. An irrevocable trust cannot be changed except in certain legal circumstances (fraud, unlawful agreements, merger of interests, decision of the Court).

**POOLED INCOME FUND** - also called a Charitable Remainder Pooled Income Fund- is an investment fund much like a mutual fund. It is made up of transfers by many persons to the fund who receive life income interest in exchange for their transfers, based on the value of the transfer into the fund and based on the income earned by the fund.

**PROBATE** is the legal process of proving a will, appointing an executor, and settling an estate; but by custom, it has come to be understood as the legal process whereby a dead person's estate is administered and distributed.

**RESTRICTED FUNDS** are assets or income that is restricted in its use, in the types of organizations that may receive grants from it or in the procedures used to make grants from such funds.

A **RETAINED LIFE ESTATE** is a gift plan defined by federal tax law allowing the donation of a personal residence (to include a vacation home) or farm with the donor retaining the right to life enjoyment. A life estate may be retained for one or more lives or it may be retained for a term of years. All routine expenses - maintenance fees, property taxes, repairs, etc. - are the responsibility of the donor. The donor receives an income tax deduction for a significant portion of the value of the contributed property (the property is irrevocably deeded to the charity) and estate tax benefits.

**TESTAMENTARY TRUST** - A will can have a trust written into it, called a Testamentary Trust, which is set into motion by the Court after the will reaches a certain point of execution, and is used only after the death of the person whose estate it represents.

A **TRUST** is defined as any arrangement where property is to be held and administered by a trustee for the benefit of those for whom the trust was created. Depending on the type and how it is established, a trust may be revocable (changeable) or irrevocable (not changeable).

