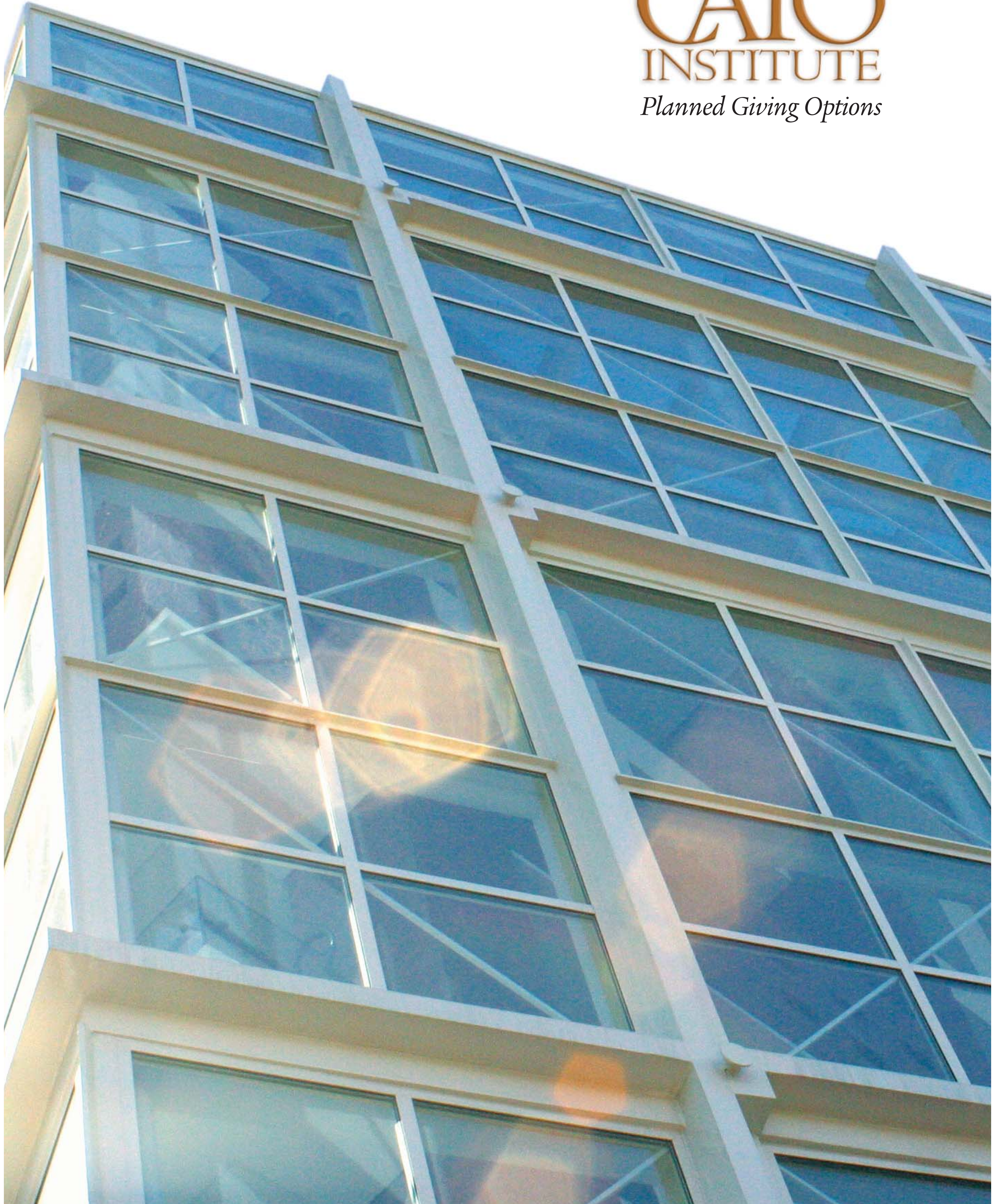

CATO INSTITUTE

Planned Giving Options

The fact that you're reading this document probably means you're already a supporter of the Cato Institute's efforts to defend liberty and limited government. It is our hope that the programs and devices outlined here will enhance your ability to provide that support. At the Institute we have always endeavored to treat Cato Sponsors as colleagues in the ongoing battle to maintain a free society. That is why you rarely receive requests for funding from us. We share our output with you and try to make clear what we are doing and why we are doing it. The financial support will follow if we do our job effectively.

In a sense, our relationship with Sponsors reflects a modern-day acknowledgment of Thomas Jefferson's admonition, "Eternal vigilance is the price of liberty." There was a time when such vigilance could be personally carried out and might not have required much more than a musket leaning by the front door. Today, we live in an incredibly complex world characterized by a sophisticated division of labor that makes it simply impossible for the average American to know about every effort to take away his liberties, much less do anything about it.

Support for Cato is your means of staying "eternally vigilant," because the Institute's area of specialization is protecting your liberty. And in that I believe we do as effective a job as any organization in the nation. As the *Washington Post* put it, "Cato is now the hot policy shop, respected for not compromising its core beliefs, even when they get in the way of practical politics." When one is dealing with planned giving—with establishing a legacy—"not compromising its core beliefs" are words one wants to hear.

Estate planning, of course, can be much more complex than merely including beneficiaries in your will. There are, as this booklet makes clear, numerous opportunities to limit government's ability to control or confiscate your assets. Many estate-planning devices can provide immediate benefits to you and Cato, while others are deferred. No matter which approach is taken, the objective is to benefit you, your loved ones, and the values that are most important to you. The alternative is to turn your resources over to the Internal Revenue Service to be spent by politicians. You've already done more than enough of that.

My colleagues and I are honored to be able to work at the Cato Institute and to fight the good fight for a free and open society. We are deeply grateful both for your commitment to the ideals we share and for your generosity in helping make the work of the Institute possible. Thank you for taking the time to review this booklet and the various means it provides for you to leave a legacy of liberty—now and for generations to come.

Ed Crane

THE CATO INSTITUTE is pleased to offer you an overview of some popular charitable-giving devices. These devices can offer powerful tax advantages and make it easier for you to channel your wealth to family, friends, and the causes that are most important to you . . . rather than to the IRS. Keep in mind, of course, that although Cato looks forward to helping you find the best giving vehicles to suit your needs, the following descriptions are not exhaustive and are in no way intended to replace advice from your own accountant or attorney.

For more information or to initiate inclusion for the Cato Institute in your estate plans, please contact:

MS. GAYLLIS R. WARD

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1000 MASSACHUSETTS AVENUE, N.W.

WASHINGTON, D.C. 20001

(202) 218.4631

FAX (202) 842.3490

gward@cato.org

Brochure also available at
www.cato.gift-planning.org

Cash Gifts

POWERFUL. SIMPLE. EFFICIENT.

Jack and Tina have been making modest annual gifts to Cato for years. Last year was an excellent year financially for them: Jack received an unexpected bonus, and a big block of restricted stock vested for Tina. Jack and Tina decided to share their good fortune with Cato in the form of a large cash gift.

The simplest and by far the most common gift strategy is an outright gift of cash, which is completed on the date delivered or mailed (or charged, in the case of gifts by credit card). You receive an immediate charitable contribution income tax deduction for the full gift value, up to 50 percent of your adjusted gross income (AGI). If a portion of your gift cannot immediately be deducted because of the AGI limitation, that "unused" portion may be carried forward and used for five years.

Keep in mind that many employers will match your gift dollar for dollar (or more), providing additional support for the Cato Institute. Often, these programs are also extended to retirees. Please check to see if you qualify for a matching-gift program.

> "The Cato Institute is the foremost upholder of the idea of liberty in the nation that is the foremost upholder of the idea of liberty."
>
> —GEORGE F. WILL

Appreciated Stock

AVOID CAPITAL GAINS TAX

DEDUCT THE FAIR MARKET VALUE OF THE STOCK

Oliver, a successful investor of many years standing, experienced singular success with 1,000 shares of XYZ purchased in 1999 at $10 and now worth $100 a share. If Oliver were to sell the stock his gain would be $90,000 ($100,000 less $10,000). Rather than pay taxes on the $90,000 (federal plus state and local), Oliver decides to donate the shares to Cato. Oliver will be entitled to an income tax deduction for the full $100,000 current value of the stock and will not have to pay capital gains tax.

A contribution of securities to the Cato Institute can provide you with significant tax benefits. If stock you own has appreciated in value and you have owned the stock for more than one year, you will be able to use the current value of the stock as your charitable deduction, up to 30 percent of your adjusted gross income (AGI). If a portion of your gift cannot immediately be deducted because of the AGI limitation, the "unused" portion may be carried forward and used for five years.

In addition, you will not be required to pay capital gains tax on the appreciation that would have been realized if you had sold the stock.

A gift of stock is easily accomplished through an electronic transfer. Simply request your broker to contact the Cato Institute:

MAIN NUMBER: (202) 842.0200

LESLEY ALBANESE: (202) 789.5223

GAYLLIS WARD: (202) 218.4631

Bequests

REMEMBER CATO IN YOUR WILL

GET AN ESTATE TAX CHARITABLE DEDUCTION

Nineteen years ago, Michael founded a software company that has become an industry leader. Although he is active with his local hospital and arts council, Cato is Michael's first love. The sudden loss of his wife left him thinking about the future: after making generous provisions in his will for his children, Michael decided to leave Cato an unrestricted bequest of $2,000,000. He opted for an "unrestricted" bequest because it will permit Cato to use his bequest wherever it is most needed. Michael is also pleased to learn that his estate will get a $2,000,000 estate tax deduction.

Another simple, commonly used method to ensure Cato's legacy is naming the Cato Institute as a beneficiary in your will. You can do this in one of three ways:

1. You can leave Cato a specific amount of cash or specific assets.
EXAMPLE: "I give the sum of $100,000 to the Cato Institute," or "I give 500 shares of XYZ Corporation stock to the Cato Institute."

2. You can leave Cato a fixed percentage of your estate.
EXAMPLE: "I give 30 percent of the residue of my estate to the Cato Institute."

3. You can leave Cato all or part of the residue of the estate after bequests to other beneficiaries have been made.
EXAMPLE: "I give the residue of my real and personal estate to the Cato Institute."

Whichever method is chosen, if properly structured your bequest will be fully deductible from your estate, thus decreasing any tax liability. The estate tax charitable deduction is unlimited.

Cato welcomes both unrestricted and restricted bequests: an unrestricted bequest allows Cato to determine the best use for your gift, whereas a restricted bequest lets you make the choice. For example, your restricted bequest could support the work of a particular Cato Center or program at Cato—or provide scholarships for Cato University.

If you already have a will and you wish to make a bequest to the Cato Institute without rewriting the entire document, a codicil can be drawn to accomplish this purpose.

If you have elected a living trust rather than a will, you can also easily include the Cato Institute as trust beneficiary, similar to a bequest under a will.

Retirement Assets

DESIGNATE CATO THE BENEFICIARY OF ALPHABET SOUP ASSETS . . . IRAS, 401(K)S, KEOGHS, 403(B)S

AVOID A HEAVY TAX BITE AT DEATH

TURN ALPHABET SOUP INTO SUPER EFFICIENT GIFTS

A dual-career couple, Ralph worked as a marketing executive and Eliza as a lawyer. Always careful planners, they invested after-tax dollars into their personal portfolio and stuffed pre-tax dollars into their respective 401(k) plans. Recently retired, they rolled their 401(k) dollars into IRAs and, consequently, had to decide who should be named as the beneficiary of their IRAs. Given that IRAs—and retirement assets in general—are subject to both income and estate taxes, they were astounded to learn how big the tax bite can be.

Fortunately, with the help of a good financial adviser, they managed to craft a happy solution. Their adviser pointed out that IRA assets pass free of income and estate taxes when a charity is named as the beneficiary of an IRA. So Ralph and Eliza decided that their personal investment portfolios should provide a sizable inheritance for their three children, whereas Cato would be the designated beneficiary of their rollover IRAs. Aware that their IRAs may be reduced by required (IRS rules) lifetime distributions, they are happy that whatever is "left over" can pass to Cato free of both income and estate tax.

Because retirement account assets are subject to uniquely high taxes, they become a particularly effective vehicle for charitable giving. Making a gift is often the only way to negate what can be confiscatory taxation.

Distributions from retirement plans are subject to income taxes—and there is no way to avoid making distributions because tax laws require that distributions be made once you reach a certain age.

Furthermore, whatever is left in the account when you die and your beneficiary is a nonspouse is subject to estate and generation-skipping taxes—as well as continued income taxes. In fact, combined income, estate, and generation-skipping taxes often exceed 75 percent when retirement plans are left to a nonspouse.

By designating Cato the recipient of any benefit remaining in your retirement plans, you can make a highly tax-efficient gift: your estate will get an estate tax charitable deduction for the value of the assets passing to Cato, and Cato, as a charity, will not have to pay income taxes.

One important reminder: retirement assets do not pass under your will. They pass via beneficiary designation forms. So having an up-to-date will is not enough. You must remember to do the extra paperwork required for retirement assets.

Charitable Gift Annuity

More income

Get an income tax charitable deduction

Receive a tax-free return

Miranda is living comfortably in retirement—she is fortunate to have a pension as well as a flow of income from savings. Still, since the yield on her portfolio averages only about 3 percent, she would like to find a way to boost her income so that she can travel more. At 77 she still has a long list of "must-do" trips.

A friend suggests that Miranda consider a charitable gift annuity: Miranda could transfer $200,000 to Cato in return for a promise to pay an annuity of $14,800 per year for Miranda's lifetime. What's more, Miranda would be entitled to a charitable deduction of $99,436, and $9,057 of each annuity payment would be treated as a tax-free return of capital. (Calculations based on age and prevailing interest rates.) Miranda likes the fact that a gift annuity will enhance her income, generate a whopping deduction, and leave something for Cato.

You can transfer cash or marketable securities to the Cato Institute, and, in return, Cato will issue an annuity contract that will pay you or your designated beneficiary a guaranteed annuity for life. This transfer is part gift and part purchase of an annuity. The annuity rate depends on your or your beneficiary's age and the type of annuity you choose.

With a present gift annuity, annuity payments begin immediately. You can also defer payments to some future date with a deferred gift annuity. At your or your beneficiary's death, Cato retains the remaining principal.

A charitable gift annuity can benefit you in several ways. You will receive a guaranteed income stream for life (or a specified term of years) and an immediate income tax charitable deduction for the gift portion of the transfer (subject to AGI limitations). If you establish the gift annuity with appreciated securities, you can defer your capital gains tax. Finally, you can accomplish two important goals at once: providing for your or your beneficiary's future needs while helping Cato promote its goals of individual liberty and civil society.

For example, the deferred gift annuity may be used to fund a college plan for a young child or grandchild, with income payments going to the child during his or her college years.

Note that certain age and minimum donation restrictions apply to this giving device.

Charitable Remainder Trust

Give low-basis securities

Get an income tax charitable deduction

Keep a flow of income

Avoid capital gains

Leave a legacy

Over the last 25 years, Fred and Mimi built a well-known investment boutique. Because they have no children, they are discussing the possibility of selling the firm at some future point but are daunted by the slew of taxes generated by a sale. One of their financial advisers suggests that they consider a uniquely attractive planning structure: namely a Charitable Remainder Trust (CRT). As their adviser explained:

"The basic idea behind a CRT is simple. You transfer low-cost basis assets to the CRT while reserving a flow of income for your lives. You designate a charity to receive what's left over, the so-called remainder. You get an up-front income tax charitable deduction and, more importantly, when assets are sold within a CRT capital gains taxes are not immediately payable."

This device allows you to transfer property irrevocably to a trust, which then pays you or your designated beneficiary a set annuity or percentage of the trust assets for life or for a term of years up to 20 years. When the trust terminates, the remaining assets pass to the Cato Institute. There are two ways to structure the remainder trust.

With a unitrust, your annual payment varies each year and is determined by multiplying a fixed percentage (at least 5 percent) set at the establishment of the trust by the fair market value of the trust's assets in a given year.

With an annuity trust, your annual payment is a fixed percentage (at least 5 percent) of the initial trust principal and, thus, unlike the unitrust, does not vary from year to year with the subsequent actual value of the trust.

The charitable remainder trust allows you to make an irrevocable commitment to contribute a significant sum to assist Cato with its important work while retaining a payment stream for you or your beneficiary for a period of time or for life. You will receive a current federal income tax charitable deduction for the value of Cato's remainder interest in the trust. You can also defer or possibly avoid capital gains taxes on appreciated securities used to fund the trust and the assets used to establish the trust reduce the size of your estate. Additionally, the trust is not taxed if it sells appreciated securities, and undistributed capital gains or earnings in the trust accumulate tax-free. This permits a larger asset pool for reinvestment and, thus, larger payments for you or your beneficiary.

Note that certain age and minimum donation restrictions apply to this giving device.

Charitable Lead Trust

LEAVE AN UP-FRONT LEGACY

PROVIDE FOR YOUR FAMILY

GET AN ESTATE TAX CHARITABLE DEDUCTION

Jack, an ardent Cato supporter, has managed a consulting firm for many years. As he begins to think about the future, he realizes that he wants to leave a meaningful legacy to Cato but also wants to ensure that his niece, Alice, is financially secure. Jack has no children but is close to Alice, a young lawyer just starting out. Jack is also worried about the impact of estate taxes. Fortunately, Jack learns of a trust that could solve his conundrum—a Charitable Lead Trust (CLT). Jack's adviser explains that CLTs are quite straightforward:

"Your will should direct that a portion of your assets flows into a CLT. The income earned on the CLT assets will pass to charity for a term of years—say for 5, 10, or 20 years. You get to choose how long. After that term has expired, the assets pass to family members—in your case, Alice. And your estate will get an estate tax charitable deduction equal to the value of the income stream going to charity."

For Jack and Alice, a CLT brings it all together—a legacy for Cato, long-term security for Alice, and an estate tax deduction.

This device is the mirror image of a charitable remainder trust. You fund an irrevocable trust that then pays a certain percentage to the Cato Institute for a specified period of time. After that time, the principal is paid to a remainder beneficiary (typically, children, grandchildren, or other family members).

With a charitable lead trust, you can pass an income-producing and potentially appreciating asset to your heirs while also helping Cato advance civil society. The value of the assets placed in the trust is frozen for gift- and estate-tax purposes on the date of transfer. This means that any future appreciation of the assets is free of gift and estate taxes. In addition, a charitable gift-tax deduction is earned for the actuarial value of income paid to Cato during the term of the trust. The greater the amount paid to Cato, and the longer the term, the greater the charitable gift-tax deduction. It is possible to earn a deduction equal to the value of the assets transferred to the trust, making the gift to the trust remainder beneficiaries tax-free.

Note that certain age and minimum donation restrictions apply to this giving device.

Chairs and Special Gifts

Chairs and other special gifts are excellent ways to memorialize loved ones and ensure that your own personal values are advanced well into the future. Although the Cato Institute always welcomes donations to its general operating fund, you can also direct your contribution to a specific department or policy area. For example, Cato's first endowed chair, the B. Kenneth Simon Chair in Constitutional Studies, is currently held by Roger Pilon. Other contributions have supported our Center for Trade Policy Studies, underwritten our Global Freedom Initiative, assisted in the mass distribution of our pocket-sized Constitution, and supported many other special projects such as internships and Cato University scholarships.

We want to help you leave the legacy that is most meaningful to you. Please let us know if a chair, targeted endowment, or other special gift might be of interest to you.

OTHER WAYS TO GIVE

Whereas we have discussed some of the most popular ways of giving, our list is not exhaustive. So feel free to approach us if you have a gift-giving idea not discussed here.

For example, you may have a valuable stamp collection or some antique furniture. You may have a home which you would like to pass on to Cato. Or you may have a life insurance policy that is no longer needed to protect your family. If you have one of these gifts in mind, contact us so that we can structure the gift in a way that works for you and for Cato.

DEFENDING OUR HERITAGE OF LIBERTY

Cato speaks with a powerful voice: its principled defense of liberty makes it a rudder for all who care about freedom. We greatly appreciate your support for Cato's efforts in promoting a free society, limited government, and the rule of law.

With the hope that you will consider Cato in your plans, we encourage you to contact us to discuss the giving strategies presented here. We'd like to hear your ideas about what you want to do to help the Cato Institute achieve its mission to expand and strengthen civil society. Working together we can achieve that goal.

CATO INSTITUTE

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"There is no institution that, person for person, dollar for dollar, idea for idea, has been even close to the Cato Institute in advancing fundamental principles."

–Frederick W. Smith,
Chairman and CEO, FedEx Corporation; Cato Board of Directors