Planned Giving 101: Introduction to Gift Planning

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The term "planned giving" was coined 46 years ago by Robert F. Sharpe:

- "A donor usually considers a current gift to your institution as a cash outlay now. To make a deferred gift, a person decides to give at some future date, either a number of years from now or at death. A deferred gift is a present decision to make a future gift, evidenced by a legal contract.

- "While the name 'deferred giving' is best known to professionals in the field, it is not a term that communicates very much to the average donor. Therefore, we suggest the term 'planned giving.' When a person makes a planned gift, it suggests forethought."

- *Give & Take*, a publication of the Sharpe Group, August 1972
Other ways to think about it

• Silos for development staff
  – Annual giving
  – Major gifts- annual giving at large amounts
  – Planned giving- only deferred

• Annual Giving vs Legacy Giving
  – Annual gift is not generally considered a planned gift but a legacy gift is

• Estate Planning/Planned Gifts
  – Any gift that affects a donor’s estate plans or would be incorporated into their estate planning
  – Percentage of assets

• Most gifts involve some level of tax planning
Income Tax

AGI - reportable income (all income minus above the line deductions- IRA contributions, HSA contributions, etc.)

- EITHER standard deduction or itemized deductions

= Taxable Income

- Charitable income tax deduction is an itemized deduction
- Applicable limits apply for gift to public charities:
  - 60% of adjusted gross income (AGI) for cash gifts
  - 30% of AGI for appreciated asset gifts
Appreciated Asset Bonus

- Untaxed Gain =  

\[
\text{Purchase Price} \downarrow \quad \text{Market Value} \quad \text{Deduction Amount}
\]
IRA Qualified Charitable Distribution

- Traditional IRA account
- Gifts up to $100,000
- Must be age 70 ½ or older
- Gift must be made directly from IRA account to charity
- QCD counts towards your required minimum distribution
- Not included in AGI so no charitable deduction
IRA QCD

<table>
<thead>
<tr>
<th></th>
<th>$5k gift to charity with no QCD</th>
<th>$5k gift to charity through a QCD</th>
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<tbody>
<tr>
<td>IRA RMD</td>
<td>$30,000</td>
<td>$25,000</td>
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<tr>
<td>Other income</td>
<td>$65,000</td>
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<tr>
<td>AGI</td>
<td>$95,000</td>
<td>$90,000</td>
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<td>Standard deduction</td>
<td>($26,600)</td>
<td>($26,600)</td>
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<tr>
<td>Taxable income</td>
<td>$68,400</td>
<td>$63,400</td>
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<td>Tax Due</td>
<td>($17,144)</td>
<td>($15,594)</td>
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<tr>
<td>Net Income</td>
<td>$72,856*</td>
<td>$74,406</td>
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</table>

- Tax savings of $1,550 or 31% of the $5,000 gift
- *Includes the ($5,000) for the cash gift to charity
## After Tax Cost of $1,000 Gift

<table>
<thead>
<tr>
<th></th>
<th>Standard Deduction</th>
<th>Itemized Deductions</th>
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<tbody>
<tr>
<td>Writing a check</td>
<td>$1,000</td>
<td>$590</td>
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<tr>
<td>Appreciated Stock Gift</td>
<td>$784</td>
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<td>IRA Qualified Charitable Distribution</td>
<td>$590</td>
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</table>

### Assumptions
- 32% federal income tax bracket (15% capital gains rate)
- 9% OR income tax bracket
- Highly appreciated stock with a $100 cost basis and $1,000 FMV
- IRA QCD is made from the donor’s RMD

### Notes
- These figures are offered for illustrative comparative purposes only and not to represent actual tax savings as each tax and financial situation is unique
Charitable Remainder Trust

• Irrevocable Trust
• Current income to non-charitable beneficiaries
• Remainder to charitable beneficiaries
• Tax exempt
• Deduction on funding for value of remainder interest
• IRS requires 10% remainder value
• Common for charities to serve as Trustee
  – Policies
  • Irrevocable remainder beneficiary of at least 50%
  • Minimum Amount
  • Minimum remainder percentage (maximum payout, minimum age)
Charitable Remainder Trust

• Unitrust (CRUT) or Annuity (CRAT)
• CRUTs can be lesser of net income or unitrust amount (NICRUT)
• If a NICRUT includes a makeup provision (NIMCRUT)
• If it starts out a NICRUT or NIMCRUT and changes to a standard CRUT then it is called a Flip trust
  – Flip provision can’t be discretionary
  – Most common is sale of property
  – Can also flip at a specific age (used for retirement CRUT)
• Lifetime of beneficiaries or terms of years (maximum of 20)
• Beneficiary is taxed based on actual income earned by Trust and capital gains recognized by Trust
• Can add to a CRUT but not a CRAT
Charitable Remainder Trust

Step #1

Donors create Charitable Remainder Trust

Initial set up costs for paying attorney to draft trust
Charitable Remainder Trust

Step #2

Donors fund Charitable Remainder Trust

Donors receive income tax deduction for funding equal to present value of the remainder interest
Charitable Remainder Trust

Step #3

Charitable Remainder Trust pays out income stream over term of years or lifetime to non-charitable beneficiaries
Charitable Remainder Trust

Step #4

Charitable Remainder Trust pays out remainder to charitable beneficiaries after trust term is over
Charitable Gift Annuity

• Contract between donor and charity
• Bargain sale
  – Donor purchases annuity for more than full market value
• Donor gets deduction for difference between amount paid and present value of annuity
• Basis carries back to donor as returned principal over life expectancy as tax free income
• Capital gain also pro rata over life expectancy
Charitable Gift Annuity

- American Council on Gift Annuities
  - Rates assume 50% of original amount to charity
  - Over 90% of charities use these rates
- Governed by state law where donor resides
- Board needs to decide whether to offer or not
  - Potential liability
- Policies
  - Minimum Amount
  - Minimum Age
  - Sometimes maximum payout amount
  - Restricted gifts
  - Unrestricted surplus to fund a reserve
Charitable Gift Annuity

Cheri Table - Age 75

6.20% Annuity

Property
$50,000

Principal
$50,000

One Life

Charity
$25,000
(Approximate Value)


2. Annuity of $3,100.00 for one life. Tax-free amount $438.74. Estimated one life payout of $52,080. Effective payout rate 9.0%.

3. Quarterly payments for one life. Property passes to charity with no probate fees. There are also no estate taxes.
<table>
<thead>
<tr>
<th>Years</th>
<th>TOTAL AMOUNT</th>
<th>$50,000.00</th>
<th>ORDINARY INCOME</th>
<th>CAPITAL GAIN PAYOUT</th>
<th>TAX FREE RETURN</th>
<th>CUMULATIVE CAPITAL GAIN</th>
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</table>

2. Annuity of $3,100.00 for one life. Tax-free amount $2,188.60. Estimated one life payout of $52,080. Effective payout rate 10.6%.

3. Quarterly payments for one life. Property passes to charity with no probate fees. There are also no estate taxes.
### Charitable Gift Annuity - Income Taxation

<table>
<thead>
<tr>
<th>Cheri Table</th>
<th>Annuity $3,100.00</th>
<th>Char. Gift $22,877.17</th>
<th>Capital Gain $0.00</th>
<th>Basis $27,122.83</th>
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Bequests

• Gift at death
• Through will or trust
• Revocable until death
• Often paired with restrictions and/or endowed
• Can be in the form of:
  – Specific asset
  – Dollar amount
  – Percentage or fraction of estate
  – Residue
• Unlimited charitable estate tax deduction
• No income tax planning
Beneficiary Designations

• Payable on death accounts- checking, savings, brokerage
• Life Insurance
• Retirement Accounts
• Revocable until death
• Easy to change
• No probate
• No income tax planning (unless retirement account)
Retirement Accounts

• Traditional IRA accounts
  – Funded with pretax dollars and appreciate tax free
  – 401(k) rolled into IRA at retirement
  – Taxed as ordinary income at time of distribution
  – Does not receive a step-up in basis at death
  – Heirs are taxed on distributions as ordinary income
• Most tax effective way to give to charity at death
Retirement Accounts

- Example: Mary has a brokerage account worth $500,000 with a cost basis of $200,000 and an IRA with a balance of $500,000. She wants to give ½ to her kids and ½ to charity.
  - If she gives charity the brokerage account and her kids the IRA
    - Charity gets $500,000 when they sell the stock
    - Kids get $500,000 minus income tax paid on distributions. Assuming that they are taxed at 24% federal and 9% Oregon rates they end up with $335,000
  - If she gives charity the IRA and kids get the brokerage account
    - Charity gets $500,000 from the IRA with no tax due
    - Kids get a stepped up cost basis to $500,000 (FMV at death) so when they sell the stock for $500,000 there is no gain and no tax due so the kids end up with $500,000
# Gifts at Death Compared

<table>
<thead>
<tr>
<th>Bequest</th>
<th>Beneficiary Designation</th>
<th>Retirement Account Beneficiary Designation</th>
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</thead>
<tbody>
<tr>
<td>Transfer at death</td>
<td>Transfer at death</td>
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<tr>
<td>No income tax planning</td>
<td>No income tax planning</td>
<td>Reduces income tax for heirs</td>
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<tr>
<td>In a will= probate required</td>
<td>No probate required</td>
<td>No probate required</td>
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<tr>
<td>In a trust = no probate required</td>
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<tr>
<td>Estate Tax Deduction</td>
<td>Estate Tax Deduction</td>
<td>Estate Tax Deduction</td>
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