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.)

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EITHER standard deduction or itemized deductions

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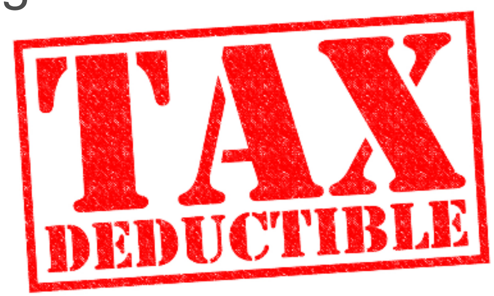
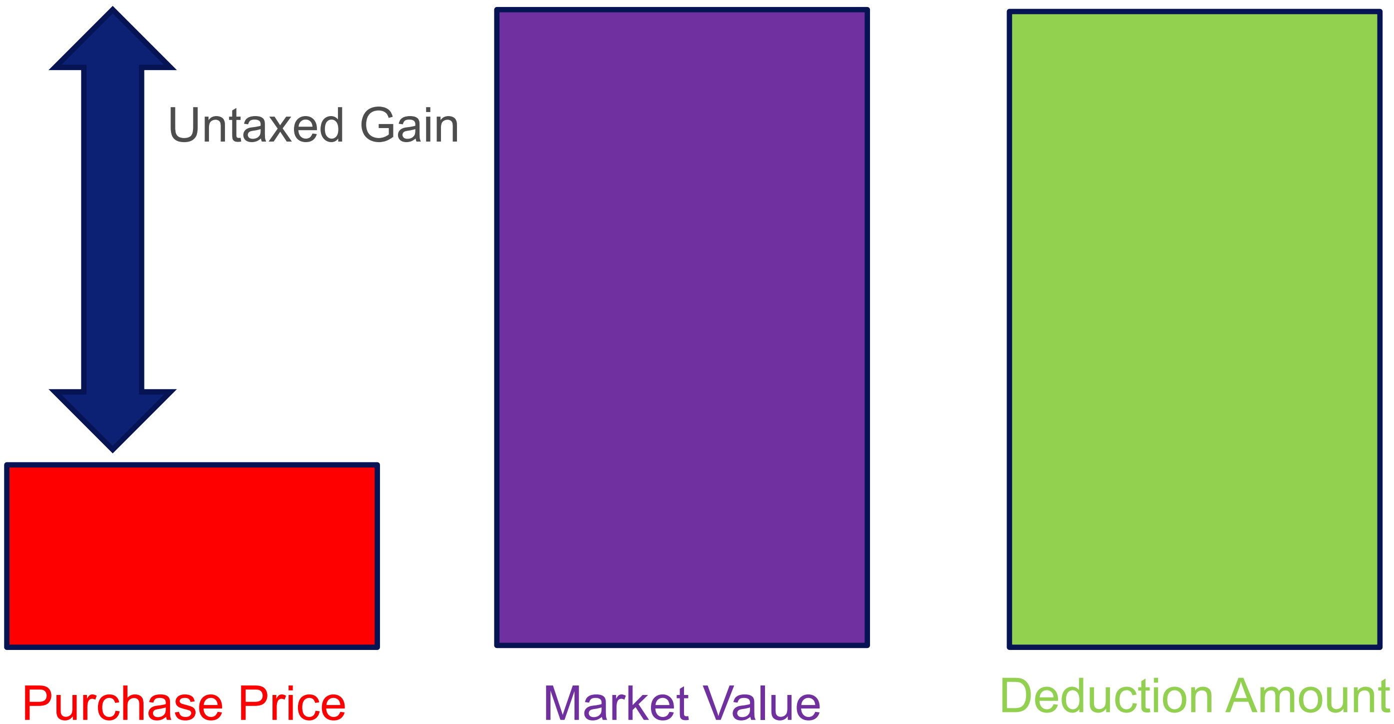
Taxable Income

- 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 = 

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

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

- 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

	Standard Deduction	Itemized Deductions
Writing a check	$1,000	$590
Appreciated Stock Gift	$784	$374
IRA Qualified Charitable Distribution	$590	$590

- 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
- 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

Charitable Remainder Trust

Initial set up costs for paying attorney to draft trust

Charitable Remainder Trust

Step #2

Donors fund Charitable Remainder Trust

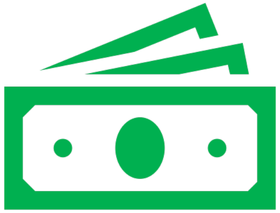
Donors receive income tax deduction for funding equal to present value of the remainder interest

Charitable Remainder Trust

Step #3

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

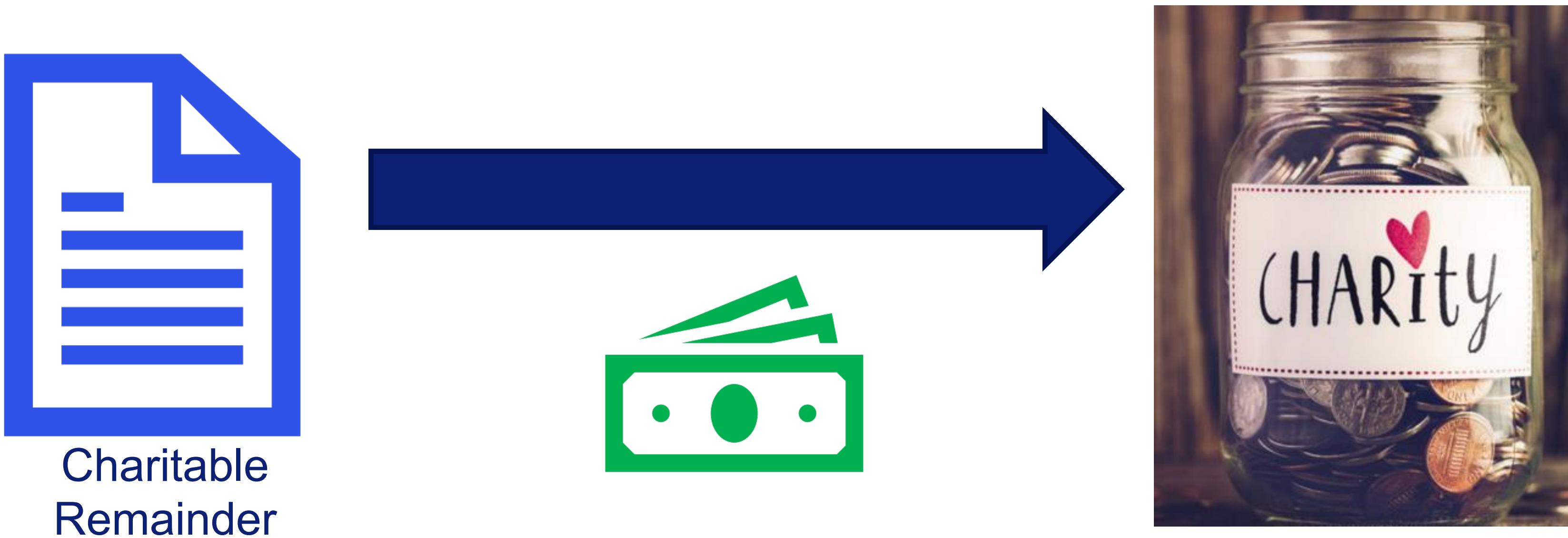
Charitable Remainder Trust



Charitable Remainder Trust

Step #4

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



Charitable
Remainder
Trust

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

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Promoting Responsible Philanthropy

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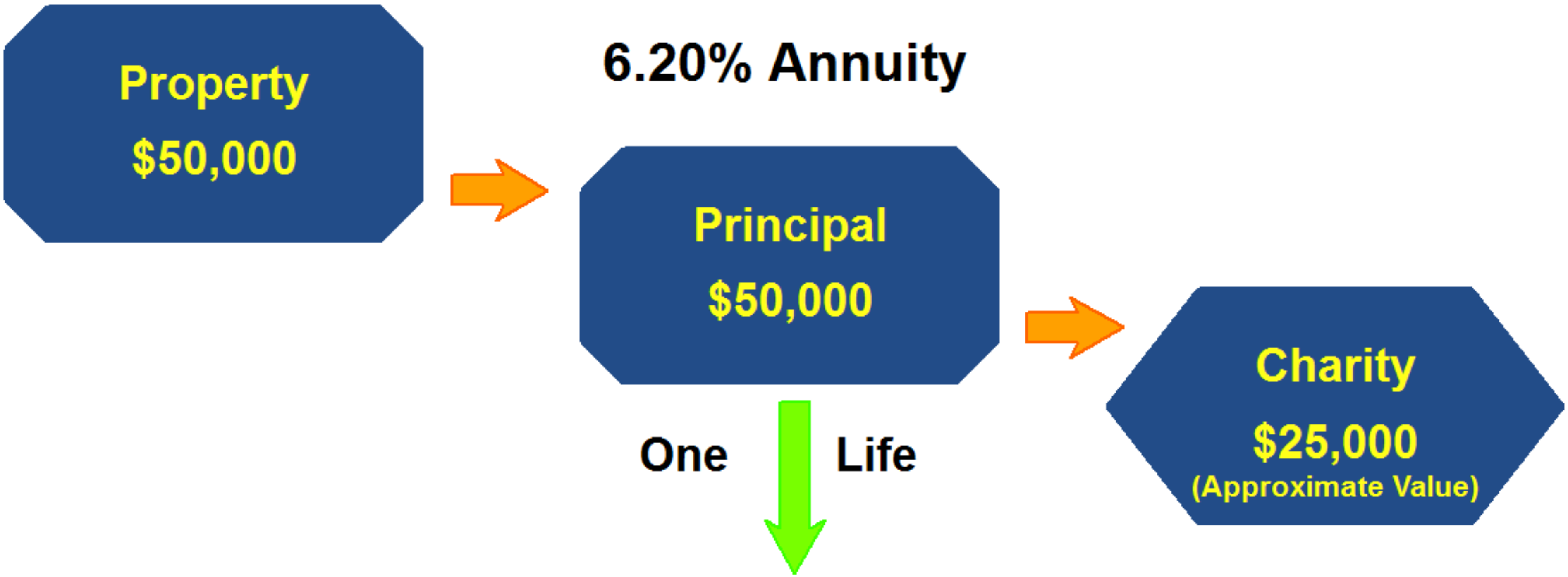
Charitable Gift Annuity

Cheri Table - Age 75



1. Gift property to charity. Partial bypass $40,000 gain may save $4,356. Income tax deduction of $22,877 may save $8,465.

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.

CHARITABLE GIFT ANNUITY - INCOME TAXATION

Cheri Table

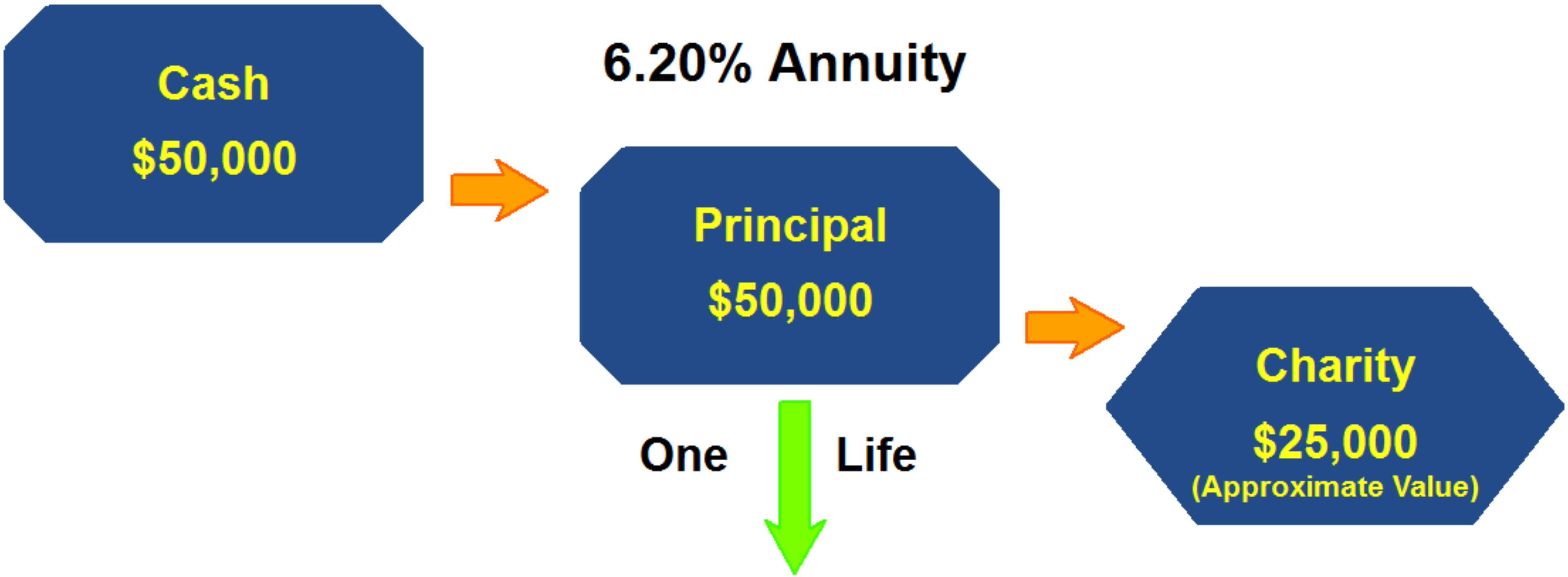
Annuity	$3,100.00
Char. Gift	$22,877.17
Capital Gain	$21,698.26
Basis	$5,424.57

TOTAL AMOUNT $50,000.00

Years	ORDINARY INCOME	CAPITAL GAIN PAYOUT	TAX FREE RETURN	CUMULATIVE CAPITAL GAIN	CUMULATIVE TAX FREE
2018	$242.82	$466.22	$116.88	$466.22	$116.88
2019	911.40	1,749.86	438.74	2,216.08	555.62
2020	911.40	1,749.86	438.74	3,965.94	994.36
2021	911.40	1,749.86	438.74	5,715.80	1,433.10
2022	911.40	1,749.86	438.74	7,465.66	1,871.84
2023	911.40	1,749.86	438.74	9,215.52	2,310.58
2024	911.40	1,749.86	438.74	10,965.38	2,749.32
2025	911.40	1,749.86	438.74	12,715.24	3,188.06
2026	911.40	1,749.86	438.74	14,465.10	3,626.80
2027	911.40	1,749.86	438.74	16,214.96	4,065.54
2028	911.40	1,749.86	438.74	17,964.82	4,504.28
2029	911.40	1,749.86	438.74	19,714.68	4,943.02
2030	911.40	1,749.86	438.74	21,464.54	5,381.76
2031	2,823.47	233.72	42.81	21,698.26	5,424.57
2032	3,100.00	0.00	0.00	21,698.26	5,424.57
2033	3,100.00	0.00	0.00	21,698.26	5,424.57

Charitable Gift Annuity

Cheri Table - Age 75



1. Gift property to charity. Donor receives contract for annuity payments. Income tax deduction of $22,877 may save $8,465.

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

Cheri Table

Annuity	$3,100.00
Char. Gift	$22,877.17
Capital Gain	$0.00
Basis	$27,122.83

TOTAL AMOUNT	$50,000.00

Years	ORDINARY INCOME	CAPITAL GAIN PAYOUT	TAX FREE RETURN	CUMULATIVE CAPITAL GAIN	CUMULATIVE TAX FREE
2018	$242.82	$0.00	$583.10	$0.00	$583.10
2019	911.40	0.00	2,188.60	0.00	2,771.70
2020	911.40	0.00	2,188.60	0.00	4,960.30
2021	911.40	0.00	2,188.60	0.00	7,148.90
2022	911.40	0.00	2,188.60	0.00	9,337.50
2023	911.40	0.00	2,188.60	0.00	11,526.10
2024	911.40	0.00	2,188.60	0.00	13,714.70
2025	911.40	0.00	2,188.60	0.00	15,903.30
2026	911.40	0.00	2,188.60	0.00	18,091.90
2027	911.40	0.00	2,188.60	0.00	20,280.50
2028	911.40	0.00	2,188.60	0.00	22,469.10
2029	911.40	0.00	2,188.60	0.00	24,657.70
2030	911.40	0.00	2,188.60	0.00	26,846.30
2031	2,823.47	0.00	276.53	0.00	27,122.83
2032	3,100.00	0.00	0.00	0.00	27,122.83
2033	3,100.00	0.00	0.00	0.00	27,122.83
2034	3,100.00	0.00	0.00	0.00	27,122.83

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

Bequest	Beneficiary Designation	Retirement Account Beneficiary Designation
Transfer at death	Transfer at death	Transfer at death
No income tax planning	No income tax planning	Reduces income tax for heirs
In a will= probate required In a trust = no probate required	No probate required	No probate required
Estate Tax Deduction	Estate Tax Deduction	Estate Tax Deduction