

Planned Giving Primer

What is Planned Giving?

- The integration of personal, financial, and estate planning goals with a person's goals for lifetime or testamentary charitable giving.
- An opportunity for charitable giving in circumstances that may not otherwise allow a donor to make a gift to charity.

Annual Giving versus Planned Giving

ANNUAL GIVING

"All or Nothing"

- Simple
- Current
- Well-Known
- Strict Requirements
- Few Options

PLANNED GIVING

"Something for Everyone"

- Simple to Complex
- Current or Deferred
- Lesser Known
- Flexibility
- Many Options

Common Types of Planned Gifts

- Bequest
- Charitable Gift Annuity (CGA)
- Charitable Remainder Trust (CRT)
- Charitable Lead Trust (CLT)
- Life Estate Reserved (Gift of Remainder)
- Pooled Income Fund (PIF)
- Bargain Sale

Bequest

A gift to charity at death. This is the simplest type of planned gift and one of the easiest to implement.

The Need

Many people desire to benefit charity but are unable to donate property to charity while they are alive. For example, a donor may have property that is needed during life to cover living expenses or rising health care costs.



A Solution

A donor can retain ownership and use of property during life and still benefit charity by leaving the property to charity at death.

The Benefits

- Gift to charity – charity receives cash or property
- Estate Tax deduction – amount given to charity is not subject to federal estate tax
- Preserves lifetime flexibility – donor is able to use and control property while alive

Target Donor: Everyone!

The Details

A donor can leave property to charity by including a bequest in his or her will or trust or in the case of property that passes by beneficiary designation (such as individual retirement accounts) by designating charity as a beneficiary.

Gift Annuity

In exchange for a gift of cash or property, charity agrees to make fixed payments for life.



The Need

A donor wants to make a gift to charity but needs regular payments to supplement income.

A Solution

Donor and charity enter into a charitable gift annuity agreement.

The Benefits

- Fixed payments for life – a gift annuity contract provides fixed payments to one or two individuals for life
- Partly Tax-Free Payments – a portion of each gift annuity payment to the donor is tax-free
- Rates by Age - annual gift annuity payouts are based on donor's age (rates are higher for older donors)
- Tax deduction – donor receives a current federal income tax deduction

Target Donor: Older donors who desire fixed payments for life. Also, donors who have cash or appreciated property that produces little or no income.

The Details

A charitable gift annuity (CGA) is a contract between a donor and charity.

Duration. A donor gives cash or appreciated property to charity.

In exchange, the charity makes fixed payments for the lifetimes of one or two individuals.

Payout Rate: Gift annuity payments are not dependent upon the charity's rate of return; instead, the payments are based on a rate schedule. Many charities use a rate schedule set by the American Council on Gift Annuities ("ACGA"). Under the ACGA's rate schedule, the older a person receiving gift annuity payments, the higher the rate.

Taxation of Payments: A pre-determined portion of each gift annuity payment is tax-free and the remaining amount of each payment is taxable (at either ordinary and/or capital gain rates).

Timing: A gift annuity contract can begin making payments immediately (a "current gift annuity") or defer payments for at least one year (a "deferred gift annuity").

Charitable Remainder Trust

A trust that receives cash or property from a donor, makes payments for a life, lifetimes or term of years and then distributes the rest to charity.

The Need

A donor wants to turn appreciated property that produces little or no income into a productive asset without paying capital gains tax on the sale of the property.

A Solution

A donor contributes the appreciated property to a charitable remainder trust that will sell the property tax-free and then make payments for life or a term of years.

The Benefits

- Bypass gain – trust sells property tax-free
- Increased Income – trust pays a percentage of its value to the trust beneficiary
- Charitable Tax deduction – donor receives a current federal income tax deduction

Target Donor: A donor with cash or appreciated property with a value of at least \$100,000 who wants increased income.

The Details

An attorney drafts a charitable remainder trust, also known as a CRT. Once the CRT is created, the donor transfers cash or appreciated property to the CRT. The CRT is a tax-exempt trust that can sell the appreciated property without paying capital gains tax.



Duration: A CRT can last for the lifetimes of one or more beneficiaries or for a specific term of years.

Annuity v. Unitrust Payout: Each year, a CRT pays either an annuity amount or unitrust amount to its beneficiaries. A charitable remainder annuity trust (CRAT) pays a fixed dollar amount each year. By contrast, a charitable remainder unitrust (CRUT) pays a different amount each year in most cases; this amount is equal to a fixed percentage of the trust value at the beginning of the year in which the payment is made.

Taxation of Payouts: CRT payouts are taxed to the beneficiary as ordinary income, capital gain, tax-free income and/or return of principal (the initial money or property contributed to the trust). Most CRT payouts are taxed to the beneficiary as ordinary income and/or capital gain. It is rare for a CRT beneficiary to receive tax-free income or return of principal.

Payout Flexibility: An annuity trust, or CRAT, offers no flexibility in determining payout. A fixed percentage of the initial CRT value must be distributed each year. A unitrust, or CRUT, on the other hand, offers four flexible payout options. A standard CRUT pays a fixed percentage of the trust value at the beginning of the year in which the payment is made. A net income trust (NICRUT) pays the lesser of the trust's net income for the year or the standard payout amount. A net income with makeup trust (NIMCRUT) is like a NICRUT but in some cases can make additional distributions. Finally, a FLIP trust pays like a NIMCRUT until a certain date or event and then "flips" to pay like a standard CRUT.

Charitable Lead Trust

A trust that receives cash or property from a donor, makes payments to charity for a specified period and, at the end of the period, distributes the trust property to a specified beneficiary, usually family.

The Need

A donor wants to give property to his family and pay as little gift or estate tax as possible.



A Solution

A donor contributes property to a trust that will make distributions to charity for a specified term and ultimately distribute the property to the donor's family.

The Benefits

- Pass appreciation to family – donor gives property to a lead trust and that property plus growth passes to his or her family with no additional tax
- Gift or estate tax deduction – donor receives a current federal gift or estate tax deduction for the present value of the payments that will go to charity

Target Donor: A person who wants to pass specific property that is expected to grow substantially to family at low gift or estate tax cost. A lead trust is ideal for persons with estates of three million or more.

The Details

An attorney drafts a charitable lead trust (CLT). Once the CLT is created, the donor transfers cash or property to the CLT. Unlike a CRT, a CLT is a taxable trust. Every year of the trust term, the CLT will report its income and then take a deduction for the amount that it distributes to charity; any excess is subject to tax.

Duration: A CLT can last for the lifetimes of one or more beneficiaries or for a specific term of years.

Annuity v. Unitrust Payout: Each year, a CLT pays either an annuity amount or unitrust amount to charity. A charitable lead annuity trust (CLAT) pays a fixed dollar amount to charity each year. By contrast, in most cases a charitable lead unitrust (CLUT) pays a different amount each year to charity; this amount is equal to a fixed percentage of the trust value at the beginning of the year in which the payment is made.

Lead Trust Types: There are two basic types of CLTs: a family CLT and a grantor CLT.

A family CLT, described above, receives property and ultimately distributes it to someone other than the donor. No income tax deduction is available to a donor who creates a CLT.

A grantor CLT, not described above, receives property and ultimately returns it to the donor. The donor gets an income tax deduction when he creates the trust. When the trust calculates its income each year, however, the donor has to report this income on his or her personal income tax return even though he or she did not receive any of the income. The benefit of a grantor CLT is a large current income tax deduction which can offset a donor's high income in the year the trust is created.

Life Estate Reserved

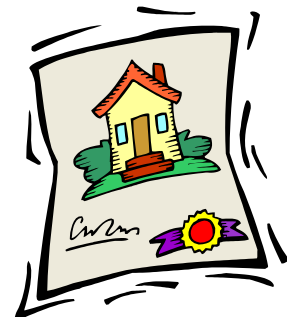
Charity accepts a gift of property – either a personal residence or farm – and the donor retains the right to use the property for his or her lifetime.

The Need

A person may desire to leave his or her house or farm to charity at death, but would like a current tax benefit.

A Solution

Donors can deed a house or farm to charity but keep the right to use the house or farm for their remaining lifetime.



The Benefits

- Tax deduction – donor receives a current federal income tax deduction for the remainder value of the home or farm
- Preserves lifetime use – donor is able to use and control home or farm while alive

Target Donor: Older donors that have enough liquid assets available for living expenses and desire a current income tax deduction.

The Details

A donor executes a deed transferring a house or farm to charity. In the deed, the donor retains a “life estate,” which is the right to live in the home and use it for life. At the time of the gift, the donor and charity also enter into a “MIT” or maintenance, insurance and taxes agreement specifying the donor’s responsibilities with respect to the home – including the payment of maintenance, insurance and taxes.

Pooled Income Fund

Charity accepts a gift of cash or stock, invests it with similar gifts from other donors and then distributes a proportionate share of earnings to the donor.

The Need

A person may desire to leave property to charity at death but currently needs to supplement income.



A Solution

A donor gives cash or stock to charity. In exchange, charity issues shares of its pooled income fund to the donor. The donor receives earnings from the pooled income fund for life.

When the donor dies, charity keeps the donor’s pooled income fund shares.

The Benefits

- Bypass gain – donor bypasses gain when appreciated property is sold by the pooled income fund
- Tax deduction – donor receives a current federal income tax deduction
- Increased Income – donor receives a percentage of the pooled income fund earnings every year

Target Donor: A donor who wants a tax deduction and income stream and is willing to give principal to charity.

The Details

Donor transfers cash or appreciated property to the pooled income fund – known as a PIF – and receives an income tax deduction for the present value of what will be left for the charity at the donor’s death. The PIF sells appreciated property

and all capital gain is bypassed. The cash or property sale proceeds are invested as part of the PIF. The donor receives a percentage of the PIF earnings each year. These earnings are usually taxed to the donor as all ordinary income.

Bargain Sale

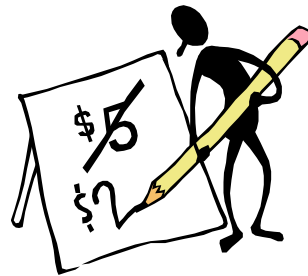
Charity purchases property for less than fair market value or accepts a gift of mortgaged property.

The Need

Many people desire to benefit charity but cannot afford to give an entire property to charity. Other people may have mortgaged property that they are willing to give to charity.

A Solution

Charity can buy the property at a bargain price or agree to accept the donor's mortgaged property.



The Benefits

- Immediate benefit to donor – donor gets a cash payment or debt relief
- Bypass gain – donor avoids gain on the part of the property that is a gift
- Tax deduction – donor receives a current federal income tax deduction for the part of the property given to charity

Donor sells \$5 asset to charity for \$2 – a bargain! Donor gets \$2 in cash and a \$3 charitable deduction.

Target Donor: Anyone that owns appreciated property and wants to benefit charity but needs a benefit in return (either cash or debt relief).

The Details

A bargain sale works just like any other sale *except* that the sale price is a bargain (less than the property is worth). A donor sells the property to charity and receives a cash payment or debt relief. The donor gets the cash or debt relief he needs and the charity gets a valuable property for less than full price. The difference between the sale price and the appraised value of the property is a gift to the charity.