The Top Ten Lessons Learned From The Front Lines

PG Calc Webinar

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Presented by:

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I. INTRODUCTION

The world of planned giving is complex and fascinating. It is squarely at the intersection of philanthropy and estate planning, but it also overlaps with the areas of law, taxation, investments, and human behavior. There are so many nuances and specialty areas of knowledge that the gift planning professional can easily become overwhelmed and lose sight of the core issues. We at PG Calc hesitate to say, "we've seen it all," but in some ways, we have!

We produce software for gift planning and gift administration, and we provide a wide array of services ranging from consulting to web services. We thought it might be helpful to pause for a moment and share what we've identified as the top 10 lessons in planned giving that we have learned over the 37 years of our company's existence. These are not necessarily in order of importance or relevance, and, of course, they represent only a tiny portion of the knowledge required for any modern-day gift planner.

II. TOP TEN LESSONS LEARNED FROM THE FRONT LINES

1. Is it a gift, or is it an investment? Umm…yes.

In some ways this is the simplest and most important point of all, but it frequently gets lost in the flurry of calculations, brochures, and projections. If we are dealing with any kind of split interest gift arrangement – charitable gift annuities (CGAs), charitable remainder trusts (CRTs), charitable lead trusts (CLTs) – they are all vehicles by which the donor wishes to make a substantial gift to charity, but also wishes to provide some type of financial benefit to herself and/or to other persons. When a 72-year-old donor establishes a $50,000 standard CGA in June of 2022, she gets a payout rate of 4.9% and a charitable income tax deduction of $26,080. The deduction is only for a portion of the funding principal because there is also a financial benefit to the donor of receiving the annuity for the rest of her life.

See Exhibit A for details.

2. Never forget about the value of the non-charitable benefit.

In the example above, the donor's tax deduction is $26,080, because according to IRS-mandated methodology, the total value of the financial benefit of the annuity payments to the donor is $23,920. Notice that the two numbers add up to the total funding principal of $50,000. With CGAs, the IRS requires the calculation for the value of the personal benefit to be computed first; the remaining amount is the value of the estimated charitable benefit. It's simple subtraction. Other split interest gifts use slightly different methods (per the IRS), but the concept is the same. The charitable benefit (the deduction) plus the value of the non-charitable benefit (the value of the annuity or income stream) equals the total funding amount.

See Exhibit B for details.

3. CGAs (almost) always lose money – really!

If the donor establishes a CGA with $50,000, does that mean the charity receives the $50,000 when she passes? Most likely not. That $50,000 is used to make payments to the donor for the rest of her life. At $2,450 per year, with no expenses, but also no investment earnings, the CGA would run dry after 20 ½

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years – there would be nothing left. But there is another side to the equation. The money does not sit in a savings account, but rather, it is invested in a prudent manner for total return. We've published articles in recent years illustrating how, with simplified mainstream investment portfolios – even with overly conservative postures – it is reasonable to expect a long-term average annual return of 7-8%. That rate of return can be significantly greater than the annual payout percentage to the annuitant or beneficiary.

If the gift annuity principal is earning more than it is paying, the principal amount will go up. In the real world, however, there are reasons why it's not so simple. Many CGAs have payout rates higher than 4.9%, and some restrictive investment policies limit the portfolio's exposure to equities.

Let's suppose that our theoretical donor is 82 instead of 72; that would mean a 7% payout rate instead of 4.9% The dramatically higher payout rate will make a significant difference in the underlying corpus of the gift annuity. If we keep the investment assumptions the same – the average annual return at 7% and the annual management fee at 1%, that means an average net investment return of 6%.

With a payout rate of 4.9%, the principal amount would actually grow over time, and the residuum would be greater than the initial funding amount. But with a 7% payout rate, the principal amount will shrink, year by year. If we run the projections for an 82-year-old, we see that the average remaining life expectancy is approximately 9 years. With payments of $3,500 for each year, the donor as annuitant will have received $31,500 in payments, and the corpus will have shrunk to about $44,000 after 9 years.

Is that a bad outcome for a gift annuity? If the principal funding is $50,000, and 9 years later, the residuum is $44,000, does that mean it was a bad gift? Definitely not! With a gift annuity, it is presumed at the outset that the principal value will go down over time; the critical point is that it doesn't go down too much from year to year. Typically, the principal remaining after the annuitant passes will be somewhere between 60-90%. If the residuum comes out in that range, it is generally considered to be a successful gift annuity.

See Exhibit C for details.

4. The IRS discount rate isn't really that important (for the most part).

A fair amount of attention is paid to the IRS discount rate (the "7520 rate" or "charitable mid-term rate"). Here is a quick reminder of what it is and how it works. The discount rate is published monthly, between the 15th and 20th of the month, and applies to gifts in the following month. It equals 120% of the annual mid-term rate, rounded to the nearest 0.2%. The annual mid-term rate is the annualized average yield of U.S. Treasury instruments over the past 30 days with remaining maturities of 3-9 years.

The IRS requires use of the discount rate in calculating the charitable deductions for the majority of split-interest gifts. It serves as an assumed rate of investment return. Why does that matter? In the example we've been using, the $50,000 is theoretically invested for the long run. The residuum – what remains of the principal funding amount when the gift annuity terminates – will depend on the combination of the payout rate to the annuitant and the actual investment rate of return. But the IRS requires us to run the charitable deduction calculations using the discount rate as a proxy for the investment rate of return. With the present IRS discount rate of 3.6%, the payout rate of 4.9% would significantly exceed the investment return each year.

That would cause a significant erosion of principal, which is why the charitable deduction is only $26,080 – a little over 50% of the initial funding amount. If the discount rate were 5%, however, according to the IRS methodology, the investment return would be slightly higher than the payout rate.

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But let's not get too excited: with a discount rate of 5%, the deduction would only rise to $28,280.50. Obviously, our donor would enjoy getting a larger deduction – an increase of $2,200 – but generally, the discount rate changes only slightly from month to month, or even year-to-year.

We should note, we are at an interesting point in time for this particular conversation – since August of 2021, the discount rate has risen from 1.2% to the current rate of 3.6%. Were we dealing with a 1.2% discount rate at this point, Mary Smith's charitable deduction for our original example would be only $21,279.00 – that's roughly $5,000 lower than the deduction based on June 2022's 3.6% rate.

Even in the current moment, we can see the difference made between the three most recent IRS discount rates. Every donor has the right to use either the current discount rate, or one of the discount rates for the two preceding months. The discount rate in April was 2.2%, and the discount rate in May was 3.0%. Using the current month's discount rate of 3.6% gives the donor the highest charitable deduction, but the difference is only about $2,600.

Of course, we should point out that some donors will choose to use the lowest possible discount rate because they can't use the charitable deduction. Using the lowest discount rate with gift annuity calculations will result in the highest possible proportion of tax-free income. But the difference is relatively minor and not part of our conversation today.

The main point here is that changes in the IRS discount will not make a huge difference in the amount of the charitable income tax deduction. Interest rates have gone up over the past year, which is reflected in changes to the IRS discount rate. Inflation has also risen sharply over the past year, and now the Federal Reserve is taking dramatic steps to tamp it down by raising interest rates further. No one can predict with certainty what interest rates and the IRS discount rate will be at some particular point in the future. Gift planning professionals should advise donors not to delay making decisions about split interest gifts because of possibly higher discount rates in the future. It doesn't make sense for anyone to "play" the IRS discount rate.

See Exhibit D for details.

5. The donor does NOT escape all his capital gains with a life income gift; it's in his best interest to supply a cost basis for a life income gift.

We hear this frequently: the donor doesn't understand why he should provide a cost basis for the appreciated property he is contributing to establish a life income gift (for simplicity, we'll assume the property is marketable securities). Some donors are quite insistent that since they are "making a gift to charity," nobody needs to know how much they paid for the stock. This is where it's critical to remind them that they are making a gift, but it is a partial gift. Going back to our examples above, the gift annuity funded with $50,000 of highly appreciated stock is partly a gift and partly a financial arrangement to benefit a person. We need to explain to donors that the cost basis is unnecessary only in cases of outright gifts.

With a life income gift, the IRS requires a portion of the donor's capital gain to be distributed to the donor through the payments (assuming the donor is the annuitant or beneficiary). PG Calc's gift calculations and projections help to illustrate that only a portion of the total capital gain is distributed, but to calculate the correct portion of the capital gain, you need to know the donor's cost basis. If the donor absolutely cannot find a cost basis or steadfastly refuses to provide one, the gift planner should assume a zero-cost basis. The results will be dramatic – the total capital gain will be assumed to be the entire value of the stock, which means the amount of reportable capital gain will be maximized. But it

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would be unwise to assume any number other than zero. Doing so would risk underreporting the capital gain, which would mean underpaying the tax on that reportable gain. The donor could face serious consequences for underpaying taxes, and the gift planner should steer clear of the situation.

See Exhibit E for details.

6. Confusion over using IRAs to fund charitable gifts.

In recent years, there has been a lot of confusion about if and how charitable split-interest gifts can be made using funds from IRAs (or other traditional qualified retirement plans). Much of the confusion has stemmed from the so-called “IRA Rollover” or “Charitable IRA Rollover,” the correct name for which is the Qualified Charitable Distribution (“QCD”). The QCD originated in the Philanthropy Protection Act of 2006, and after several years of limited extensions, this special tax provision was made permanent. It allows owners of traditional IRAs who are 70 ½ years or older to transfer up to $100,000 in each calendar year directly to a qualified charity. The amount does not yield a charitable income tax deduction for the donor, but it is excluded from the donor’s taxable income that would normally come from a distribution from one’s IRA. From all reports, it appears that the QCD has resulted in enormous amounts of transfers from IRAs to the charitable arena.

One of the most common questions about the QCD is whether the transfer can be used to establish a life income gift arrangement, and the answer is NO – at least not yet. The current tax rules specifically require the transfer to function as a direct and complete outright gift to charity; there can be no split-interest provisions applied to the transfer. But there is legislation under consideration that would allow QCDs to fund a CGA or CRT, albeit with strict limitations on the amount.

This sometimes leads to another question – whether there can be ANY split interest gifts funded with IRA money, and the answer to that question is YES. Owners of IRAs – and other qualified retirement plans as well – may take regular distributions from their retirement accounts and use the money to establish gift annuities and charitable remainder trusts. We even published an article on this subject a few years ago, www.pgcalc.com/support/knowledge-base/pg-calc-featured-articles/gifts-from-iras, but the results may not be what the donor expects or wants.

One more point about using funds from IRAs – the residue of an IRA, upon the owner’s death, can be transferred to a charitable organization to fund a CGA for another person’s benefit; that residue can also be used to fund a CRT upon the owner’s death. There will be no income tax on those funds at the time of transfer, which can represent a huge tax savings for the donor’s estate. The catch is that the annuity payments or the distributions from the CRT will be taxed exclusively as ordinary income, as compared to the usual breakdown between ordinary income, capital gains, and tax-free return of principal. But it’s a great example of using a life income gift arrangement to reduce and delay taxes that otherwise would be levied all at once.

See Exhibit F for details.

7. Beware gifts of real estate!

Who doesn’t love the idea of receiving a gift of real estate from a generous donor? They usually involve larger amounts than cash or appreciated securities, and in some cases, the property is sold almost as quickly as it is received by the charity. But real estate by its very nature can be complicated and troublesome. Just the environmental review required by a charity nowadays can be enough to kill the deal. Once the environmental review is completed successfully, the actual transfer needs to happen,

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which can be cumbersome. And once the charity has assumed ownership of the property, it will need to move as quickly as possible to liquidate the property. There are always risks involved in owning real estate, such as natural disasters, fires, and flooding. Even in the most favorable of circumstances, there will still be maintenance costs. And if the property is held for a significant amount of time, the charity runs the risk of declining market value.

The gift of real estate as an outright gift is tricky enough, but real estate in conjunction with a split-interest gift arrangement raises the charity's risk to a whole new level. If a gift annuity is funded with real estate (many charities won't even consider it), the charity alone bears the brunt of any damage or loss of value to the property. The gift annuity will be based on the appraised value on the date of transfer, but the sales proceeds could be dramatically lower. Remember that disposing of real estate will involve – at a minimum – a combination of fees that can easily exceed 5% or more of the total value.

There are also many examples of charitable remainder trusts being funded with real estate. In particular, there are many examples of the so-called "Flip CRUT," which starts as a net income trust and converts to a standard unitrust with an event such as the property being sold. Situations involving real estate funding a CRT can raise serious questions about who is going to serve as trustee, both initially, and after the property
is sold.

In addition, we see a number of Retained Life Estates, whereby the donor transfers the property to the charity but reserves the right to live in the home for the rest of his or her life. That brings up all kinds of additional issues because the charity must hold the property for many years – perhaps even decades. We warn to "beware," not necessarily to run away, since for many donors their real estate is their greatest asset.

See Exhibit G for details.

8. The three critical CRT questions.

The possibility of a new charitable remainder trust can be appealing to planned giving officers; they tend to be for larger amounts than CGAs, and they take the risk of the payment obligation away from the charity. For many charities, the remainders from CRTs far outweigh those from CGAs, no matter how many CGAs they have. But there are certain keys aspects of CRTs that can render any speculative conversation moot. Here are the three questions a gift officer should raise when a donor proposes establishing
a CRT:

A) Who will serve as trustee of the CRT? The charitable remainder trust is established by the donor with the assistance of legal counsel. The charity does not create the trust and should not substitute as legal counsel for the donor. Some larger organizations will serve as trustee, but what does the donor do if that is not
an option?
B) Who will manage the assets of the trust? The practice of managing the investments in a charitable remainder trust is not necessarily the most advanced form of investing, but it should not be attempted by asset managers who are unfamiliar with the particular nuances of CRTs.
C) Who will handle the administrative tasks? This part is the least glamorous and potentially the most challenging aspect of a CRT. Somebody – or some entity – needs to handle the overall accounting for the trust; they need to make payments to the beneficiary, produce timely reports on the assets and activities in the trust, and handle all tax reporting requirements.

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These three questions are critically important and should be answered early in any charitable remainder trust discussion.

See Exhibit H for details.

9. Nobody ever dies on schedule.

Let's get one thing settled: Nobody ever dies on schedule. To put it more accurately, no one ever dies precisely at the specific point in time representing the average life span for all persons who are their same age. The real issue here is mortality tables and how they affect so much of what we do in planned giving. Let's take a simple example: suppose a donor contacts her favorite charity and says she is going to leave $100,000 to the organization upon her death. Of course, the gift officer sends a nice letter thanking her for her generosity and assuring her that the gift will be formally recognized when it is received, but how is the business office going to record that gift?

For starters, the business office probably isn't going to record anything until the donor dies and the money is received. But the development side wants to record something for the future gift. That gets us into the question of when the gift will be received. We don't know exactly when this donor is going to pass, so we must attempt to estimate something. When it comes to life spans, we must resort to so-called mortality tables. There are all kinds of them out there, but in planned giving, we typically deal with only a handful. We could look at a mortality table produced by the federal government, based on census data; the data in the 2000CM table predict that a typical 72-year-old person will live 12.9 additional years. Please note: we are beginning the process of transitioning to a new mortality table from the federal government; see more details about the 2010CM mortality table here.

But wait – if we use a different table – the 2012 IAR table, which is produced by the insurance industry – the average life expectancy for a 72-year-old female is 19.6 additional years. That's a huge difference! When we take the future amount of $100,000 and discount it to present value using the current 3% IRS discount rate, we get a present value of $69,744 based on the 2000CM table, and $57,673 based on the 2012 IAR table. So, which one do we use? Which one is correct? More importantly, is there ever really a correct amount? We might consider the old chestnut that donors who establish life income gifts live significantly longer than those who don't make such gifts. That's clearly a case of correlation rather than causation, and it depends on which mortality table one is using, but it's amusing to think about it.

See Exhibit I for details.

10. Hey, I've got a lead trust that's about ready to close!

If we had a dime for every time we've heard that, we'd have a bunch of dimes! In all seriousness, we're not saying that this lesson is any more important than the other nine we've discussed, but this one seems like the right one to end on. The possibility of a significant Charitable Lead Trust can send anyone working in development into a downright frenzy. They are almost always for substantial amounts, and the payments to charity start right away – within the next 12 months. The prospect of a donor setting up such a trust – remitting payments of six-figure amounts – or even seven-figure amounts – to one's charity each year for 10 or 20 years is enough to get anyone excited.

While it's great to get excited about this highly unusual opportunity, the reality is that lead trust discussions rarely turn into something concrete. Most often, we see a donor coming to the charity to discuss the possibility of a lead trust. The gift officer provides information that will be helpful in the

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donor's determination of whether to create the trust, and the gift officer will prepare calculations in an attempt to quantify the charitable and non-charitable benefits. In most cases, the donor will thank the gift officer and go on their way – and the subject of the lead trust will never come up again.

On rare occasions, the donor will come back to the gift officer after a period of time and request updated information to share with family and advisors. But again, in most cases, that is the end of the discussion with the donor. Out of the very small number of lead trusts that actually get created, the charities are almost never involved in the actual execution of the trust. Donors with significant wealth almost always collaborate with their own advisors to bring the trusts to fruition, and charities will only hear back if they are named as beneficiaries. The chances for success are probably one in 100,000 or even one in a million – sort of like winning the lottery, but the concept is titillating!

See Exhibit J for details.

III. CONCLUSION

In summary, these are the top ten lessons in our somewhat arbitrary collection of case studies. We hope that these examples will help you better understand some of the dynamics in planned giving that are unspoken but that silently govern many of the relevant discussions.

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Exhibit A

Benefits of split-interest gift plan: Charitable Gift Annuity
Example: A 72-year-old donor contributes $50,000 to her favorite charity on June 30, 2022, to establish a standard charitable gift annuity. Her payout rate – based on *current* ACGA recommended rates – is 4.9%. Her charitable deduction would be $26,080, using the June IRS discount rate of 3.6%. Here is how the benefits would be divided between the donor and the charity:

Charitable Gift
Charitable Income Tax Deduction: **$26,080**
Charitable Deduction is the *present* value of a conservative estimate of the residuum; IRS *dictates* the methodology of calculating this amount
Estimated residuum: **$62,236**
*Based on 15 years of life expectancy; assumes 7% average annual rate of investment return and 1% annual management fees

Personal Investment
Tax savings from deduction: **$10,954**
Based on federal income tax rate of 37%, federal capital gains tax rate of 20%, state income tax rate of 5%, and state capital gains tax rate of 5%
Total payments for 15 years: **$36,750**
Total tax-free portion paid over 15 years: **$23,920**

*Average remaining life expectancy is 14.5 years according to 2000CM table; that number is rounded up to nearest whole number of years for projections.

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Actuarial Calculations — EXHIBIT B

4.9% Charitable Gift Annuity

ASSUMPTIONS:

[1]	Annuitant Date of Gift		72 6/30/2022
[2]	Cash Donated		$50,000.00
[3]	Payout Rate from ACGA2020A Table		4.9%
[4]	Payment Schedule		quarterly at end
[5]	Discount Rate under IRC Section 7520(a) for 6/2022		3.6%

CALCULATIONS:

[6]	Annuity ([2] x [3])		$2,450.00
[7]	[a]	Value of $1 for age on [1], rate on [5] (Table S - IRS Publication 1457 (5-2009))	9.6342
	[b]	Adjustment for schedule on [4], rate on [5] (Table K - IRS Publication 1457 (5-2009))	1.0134
	[c]	Adj. Value of $1 ([7a] x [7b])	9.7633
[8]	Investment in Contract ([6] x [7c])		$23,920.00
[9]	**CHARITABLE DEDUCTION** ([2] - [8])		**$26,080.00**
[10]	[a]	Expected Return for age on [1] (Table V in Reg. 1.72-9)	14.6
	[b]	Adjustment for payment schedule on [4] (Reg. 1.72-5(a)(2)(i))	-0.1
	[c]	Expected Return per $1 ([10a] + [10b])	14.5
[11]	Expected Return ([6] x ([10c])		$35,525.00
[12]	Exclusion Ratio ([8] / [11]) (Regs. 1.72-4, 1.1011-2(c) Example (8))		0.673

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Summary of Benefits Projection EXHIBIT C

ASSUMPTIONS:
Projection runs for 9 years.
Measuring life age is 82.
Donor income tax bracket is 45.8%, 42% for tax savings, and 28.8% for capital gains.
Information on income and capital appreciation assumptions can be found on the Investment Assumptions chart.
Management fees: 1% of principal.

	Charitable Gift Annuity 7%
Property Donated	$50,000
Property Type	cash
Annual Payment	$3,500
Charitable Deduction	$28,284
Income Tax Savings	$11,879
Investment Assumptions	
Annual Income	2.5%
Annual Appreciation	4.5%
Sell Asset in First Year	Yes
Total Management Fees	$4,476
Total Benefit To Payment Recipient	**$31,500**
Total After-Tax Benefit To Payment Recipient	**$27,019**
Benefit to THE CHARITY	**$44,007**
Total Benefit	**$71,026**

Column 1: Annuity rate is from ACGA2020A table.

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Detailed Cash Flow Analysis EXHIBIT C

ASSUMPTIONS:
Projection runs for 9 years.
Measuring life age is 82.
Original principal is $50,000.
Donor income tax bracket is 45.8%, 42% for tax savings, and 28.8% for capital gains.

7% Charitable Gift Annuity

Year	Year-End Principal	Appreciation	Income	Mgmt Fees	Payments to Beneficiary	Tax-Free Portion	After-Tax Payments
		(4.5%)	(2.5%)	(1%)			
2022	$50,000						
2023	49,478	$2,250	$1,250	$523	$3,500	$2,618	$3,096
2024	48,924	2,226	1,237	517	3,500	2,618	3,096
2025	48,337	2,202	1,223	511	3,500	2,618	3,096
2026	47,716	2,175	1,208	505	3,500	2,618	3,096
2027	47,057	2,147	1,193	499	3,500	2,618	3,096
2028	46,360	2,118	1,176	492	3,500	2,618	3,096
2029	45,620	2,086	1,159	484	3,500	2,618	3,096
2030	44,837	2,053	1,141	477	3,500	2,618	3,096
2031	44,007	2,018	1,121	469	3,500	772	2,251
Total	**$44,007**	**$19,275**	**$10,708**	**$4,476**	**$31,500**	**$21,716**	**$27,019**

These calculations are for illustration purposes only and should not be considered legal, accounting, or other professional advice. Your actual benefits may vary depending on several factors, including the timing of your gift.

Summary of Benefits — EXHIBIT D

4.9% Charitable Gift Annuity

ASSUMPTIONS:

Annuitant	72
Cash Donated	$50,000.00
Payout Rate from ACGA2020A Table	4.9%
Payment Schedule	quarterly at end

CHOICE OF BENEFITS:

	April 2022 IRS Discount Rate 2.2%	May 2022 IRS Discount Rate 3.0%	June 2022 IRS Discount Rate 3.6%
Charitable Deduction	**$23,463**	**$25,014**	**$26,080**
Annual Payout	**$2,450**	**$2,450**	**$2,450**
Tax-free Portion (for 14.5 yrs)	$1,830	$1,722	$1,649
Ordinary Income	$620 *	$728 *	$801 *

* Once all tax-free portions have been distributed, the entire annuity will become ordinary income.

You may choose the IRS discount rate for the month of your gift or either of the two previous months, whichever produces the results that work best for you. If you choose the rate for either of the two previous months, you must file an election statement with your tax return that specifies this rate.

These calculations are for illustration purposes only and should not be considered legal, accounting, or other professional advice. Your actual benefits may vary depending on several factors, including the timing of your gift.

Summary of Benefits — EXHIBIT E

5.4% Charitable Gift Annuity

ASSUMPTIONS:

Annuitant Age	75
Principal Donated	$50,000.00
Cost Basis of Property	$15,000.00
Payout Rate from ACGA2020A Table	5.4%
Payment Schedule	quarterly at end

BENEFITS:

Charitable Deduction	**$26,680.50**
Annuity	**$2,700.00**
Tax-free Portion	$564.57
Capital Gain Income	$1,317.33
Ordinary Income	$818.10

Total reportable capital gain of $16,323.65 must be reported over 12.4 years, the expected lifetime of the donor age 75.

After 12.4 years, the entire annuity becomes ordinary income.

These calculations are for illustration purposes only and should not be considered legal, accounting, or other professional advice. Your actual benefits may vary depending on several factors, including the timing of your gift.

Taxation of Gift Annuity Payments EXHIBIT E

5.4% Charitable Gift Annuity

ASSUMPTIONS:

Annuitant Age	75
Date of Gift	6/30/2022
Date of First Payment	6/30/2022
Property Donated	$50,000.00
Cost Basis of Property	$15,000.00
Payout Rate from ACGA2020A Table	5.4%
Payment Schedule	quarterly at end

CALCULATIONS:

Charitable Deduction	$26,680.50
Number of Payments in First Year	3
Days in First Quarterly Period (4/1/2022 to 6/30/2022)	91
Days of Payment Credit in First Quarterly Period (6/30/2022 to 6/30/2022)	1
Annuity	$2,700.00
Quarterly Payment	$675.00
First Partial Payment on 6/30/2022 (1/91 x $675.00)	$7.42

BREAKDOWN OF ANNUITY:

	Capital Gain	Tax-free Portion	Ordinary Income	Total Annuity
2022 to 2022	662.28	283.84	411.30	1,357.42
2023 to 2033	1,317.33	564.57	818.10	2,700.00
2034 to 2034	1,170.74	501.74	1,027.52	2,700.00
2035 onward	0.00	0.00	2,700.00	2,700.00

Total reportable capital gain of $16,323.65 must be reported over 12.4 years, the expected lifetime of the donor age 75.

After 12.4 years, the entire annuity becomes ordinary income.

Prepared by: PG CALC (JBF) IRS Discount Rate for June 2022 is 3.6%, Table 2000CM

These calculations are for illustration purposes only and should not be considered legal, accounting, or other professional advice. Your actual benefits may vary depending on several factors, including the timing of your gift.

Actuarial Calculations — EXHIBIT E

5.4% Charitable Gift Annuity

ASSUMPTIONS:

[1]	Annuitant		75
	Date of Gift		6/30/2022
[2]	Principal Donated		$50,000.00
[3]	Cost Basis of Property		$15,000.00
[4]	Payout Rate from ACGA2020A Table		5.4%
[5]	Payment Schedule		quarterly at end
[6]	Discount Rate under IRC Section 7520(a) for		3.6%

CALCULATIONS:

[7]	Annuity ([2] x [4])		$2,700.00
[8]	[a]	Value of $1 for age on [1], rate on [6] (Table S - IRS Publication 1457 (5-	8.5226
	[b]	Adjustment for schedule on [5], rate on [6]	1.0134
	[c]	Adj. Value of $1 ([8a] x [8b])	8.6369
[9]	Investment in Contract ([7] x [8c])		$23,319.50
[10]	**CHARITABLE DEDUCTION** ([2] - [9])		**$26,680.50**
[11]	[a]	Expected Return for age on [1] (Table V in Reg. 1.72-9)	12.5
	[b]	Adjustment for payment schedule on [5] (Reg. 1.72-5(a)(2)(i))	-0.1
	[c]	Expected Return per $1 ([11a] + [11b])	12.4
[12]	Expected Return ([7] x ([11c])		$33,480.00
[13]	Exclusion Ratio ([9] / [12]) (Regs. 1.72-4, 1.1011-2(c) Example (8))		0.697
[14]	Bargain Sale Ratio ([9] / [2]) (Regs. 1.170A-1(d), 1.1011-2(b))		0.46639
[15]	Cost Basis Allocable to Sale Portion ([14] x [3])		$6,995.85
[16]	Total Reportable Capital Gain ([14] x ([2] - [3]))		$16,323.65

Prepared by: PG CALC (JBF) — IRS Discount Rate for June 2022 is 3.6%, Table 2000CM

These calculations are for illustration purposes only and should not be considered legal, accounting, or other professional advice. Your actual benefits may vary depending on several factors, including the timing of your gift.

[17]	Years to Report Gain (based on donor age 75) (Reg. 1.1011-2(a)(4)(ii))	12.4

These calculations are for illustration purposes only and should not be considered legal, accounting, or other professional advice. Your actual benefits may vary depending on several factors, including the timing of your gift.

EXHIBIT F

Lifetime Gifts from IRAs

Here's what a simple example might look like:

Qualified distribution from IRA	$50,000
Owner's marginal income tax bracket	35%
Federal income tax on distribution	$17,500
Amount contributed to charity for CGA	$50,000
Income tax deduction	$25,014
Tax savings from CGA	$9,255
Net federal tax on combined transactions:	$8,245

Please note: these figures are for a 72-year-old single donor establishing a 4.9% CGA with a discount rate of 3.0%. The federal income tax on the distribution would be increased by a 10% penalty for early withdrawals if the donor were less than 59 ½ years old.

QCD from an IRA (a/k/a "Charitable IRA Rollover")

Here's what the transfer of $50,000 under the QCD looks like:

Qualified charitable distribution from IRA	$50,000
Owner's marginal income tax bracket	35%
Federal income tax normally assessed on distribution	$17,500
Federal income tax assessed under QCD	$0
Amount transferred to charity (outright gift)	$50,000
Income tax deduction normally earned	$50,000
Income tax deduction under QCD	$0
Net federal tax on combined transactions:	$0
Reduction of adjusted gross income:	**$50,000**

EXHIBIT G

Median Sales Price of Houses Sold in the U.S. from 2006 to 2013

In the housing market bubble during the 2000s, the median price of houses sold in the U.S. peaked in the first quarter of 2007 at $257,400.

In the second quarter of 2007, the median price dropped to $242,200

The housing cycle hit bottom in the first quarter of 2009 at a median price of $208,400.

That change in price represented a $49,000 decline, or a drop in value of about 19%.

It would take another 4 years to get back to the high point of 2007.

In the first quarter of 2013, the median sale price rose to $258,400.

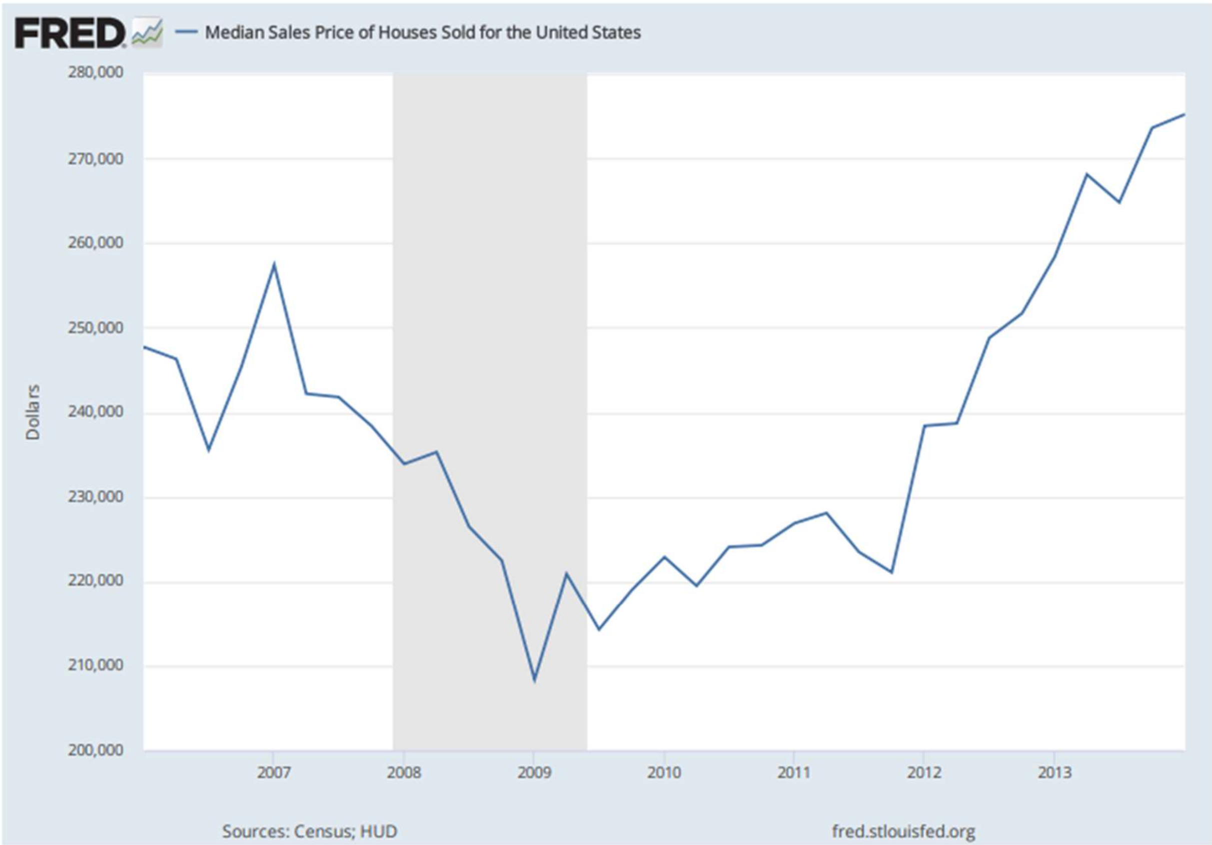

Exhibit H

The three critical CRT questions (and more...)

Here are the three questions a gift planning professional should address when a donor proposes establishing a CRT:

1) Who will serve as trustee of the CRT?

    a. The charity
    b. The donor
    c. *An attorney*
    d. A financial institution
    e. Some combination of the above

2) Who will manage the assets of the trust?
    a. The charity
    b. The donor
    c. *An investment advisor*
    d. A financial institution
    e. Some combination of the above

3) Who will handle the administrative tasks?
    a. The charity
    b. The donor
    c. *An accountant or accounting firm*
    d. *An attorney or law firm*
    e. A financial institution
    f. Some combination of the above

And here are some bonus questions!

4) *Who will draft the trust document?*
5) *Who will obtain the tax ID#?*
6) ***How much will each service cost?***
7) ***How will fees and expenses be paid?***

Exhibit I

Nobody ever dies on schedule.

Here are some examples that demonstrate how life expectancy varies depending on the mortality table chosen.

Age/Gender	Table	Life Expectancy
72/Female	2012 IAR	19.6
72/Male	2012 IAR	18.1
72/Male or Female	2000CM	12.9
72/Male or Female	2010CM	14.0

EXHIBIT J

Split-interest trust statistics from the IRS based on Form 5227s filed in 2012

Item	Total	Size of end-of-year book value of total assets (in $1,000s)				
		Under $500,000	$500,000 under $1,000,000	$1,000,000 under $3,000,000	$3,000,000 under $10,000,000	$10,000,000 or more
	(1)	(2)	(3)	(4)	(5)	(6)
CLT Number of returns	6,498	2,658	1,406	1,353	757	324
Change from 2011	-1.798%	-7.193%	-2.089%	3.599%	7.224%	6.230%
CLT Total net assets	23,705,41[illegible]	413,545	995,305	2,266,958	4,048,280	15,981,328
CRAT Number of [illegible]	14,616	11,944	1,429	912	279	52
Change from 2011	-7.855%	-7.080%	-13.499%	-10.500%	1.455%	-16.129%
CRAT Total net assets	6,447,093	1,272,029	1,039,877	1,475,705	1,338,531	1,320,951
CRUT Number of [illegible]	91,250	65,444	13,587	9,012	2,532	675
Change from 2011	-2.748%	-2.629%	-2.231%	-3.780%	-4.164%	-5.330%
CRUT Total net assets	85,240,00[illegible]	11,233,567	9,435,936	14,307,813	12,517,904	37,744,783
PIF Number of returns	1,324	1,011	104	122	64	23
Change from 2011	-5.563%	-5.514%	-10.345%	0.826%	-9.859%	-4.167%
PIF Total net assets	1,254,989	114,910	80,459	199,917	335,990	523,713

Note: the statistics provided here are the most recent ones available.

Source: http://www.irs.gov/uac/SOI-Tax-Stats-Split-Interest-Trust-Statistics