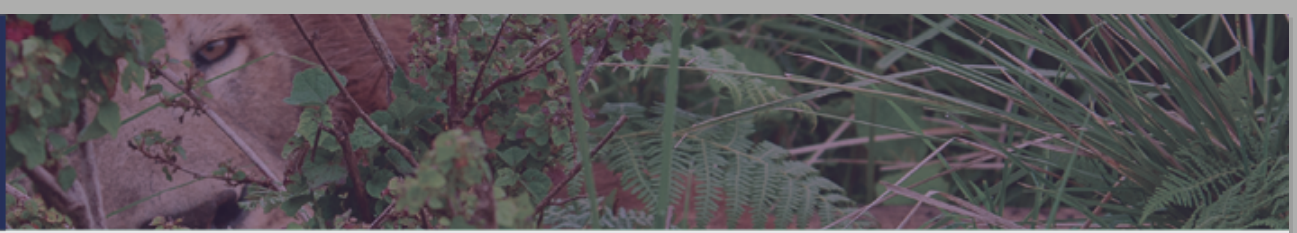




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10 IRS Rules You Need to Know to Help Your Donors Make Great Gifts



Date: August 27, 2020

Time: 1:00 – 2:30 Eastern

Presenter: Jeffrey Frye
Senior Client Services
Advisor
PG Calc



10 IRS Rules You Need to Know to Help Your Donors Make Great Gifts

Life is full of rules, and planned giving is no exception...





10 IRS Rules You Need to Know to Help Your Donors Make Great Gifts

But talking about rules can be SO BORING!





10 IRS Rules You Need to Know to Help Your Donors Make Great Gifts

So hold your noses and we'll get through this as quickly as we can...





10 IRS Rules You Need to Know to Help Your Donors Make Great Gifts

What's it really all about?*

- Capital gain reporting
- Related use rules
- Planned Giving in a low discount rate environment
- Surrendering life income gifts
- Continued vitality of the QCD
- A little bit of this and a little bit of that

**(with all due apologies to Alfie...)*



1. Gift Annuities and Appreciated Securities

Love and Marriage: What's Yours Is Mine, and What's Mine Is...Mine





1. Gift Annuities and Appreciated Securities

Transfer appreciated securities between spouses prior to creating a charitable gift annuity:

- **Reportable capital gain: only a portion of total capital gain is taxed**
- **If Donor is the Annuitant, reportable capital gains spread over life expectancy**
- **If Donor is not the Annuitant, reportable capital gains taxed up front**
- **Typical situation: Husband owns stock but wants to set up 2-life gift annuity**
- **Husband transfers stock into joint ownership, then the couple jointly establishes 2-life gift annuity**
- **Reportable capital gain spread over combined life expectancy**



2. Related Use Rule of Gifts of Tangible Property

The Art of Fine Art

© MAZIK ANDERSON

WWW.ANDERTOONS.COM



"Must be some of his early work."



2. Related Use Rule of Gifts of Tangible Property

Painting worth \$1,000,000

Cost basis = \$50,000

Contributed to an art museum:

- **Charitable deduction = \$1,000,000**

Contributed to a food bank:

- **Charitable deduction = \$50,000**



3. Low IRS Discount Rates

IRS Discount Rate: How Low Can It Go???





3. Low IRS Discount Rates

Tax-free portion of gift annuity payments with low IRS discount rates

Higher proportion of tax-free income with CGAs:

- **\$25,000 4.9% CGA w/0.6% discount rate: total annuity = \$1,225.00, tax-free portion = \$416.00**
- **\$25,000 4.9% CGA w/0.4% discount rate: total annuity = \$1,225.00, tax-free portion = \$423.35**



4. Additions to Unitrusts

They say money goes to money





4. Additions to Unitrusts

Unlike gift annuities and charitable remainder annuity trusts, CRUTs allow additional contributions over time.

This allows the donor to spread out the funding transactions and the resulting charitable deductions.

The principal grows over time, benefitting both the life income beneficiary and the remainder charity



5. Bargain Sales and Capital Gains

Here's a lovely little house right next to your campus...





5. Bargain Sales and Capital Gains

Property is sold to a charitable organization for less than the full market value.

The difference between the full market value and the sale price represents a charitable gift.

The capital gains attributable to the gift portion are permanently forgiven.



6. Retained Life Estates and Low Discount Rates

Ah, there's no place like home...





6. Retained Life Estates and Low Discount Rates

Residence has fair market value of \$750,000

Retained life estate for one person age 72

**Charitable deduction at 0.6% discount rate:
\$647,833.80**

**Charitable deduction at 0.4% discount rate:
\$664,017.90**



7. CRAT Special Rule from 2016

It's all in the numbers, you know



"In a way, I am kind of famous. But you've probably never heard of me unless you happen to travel in actuarial circles."



7. CRAT Special Rule from 2016

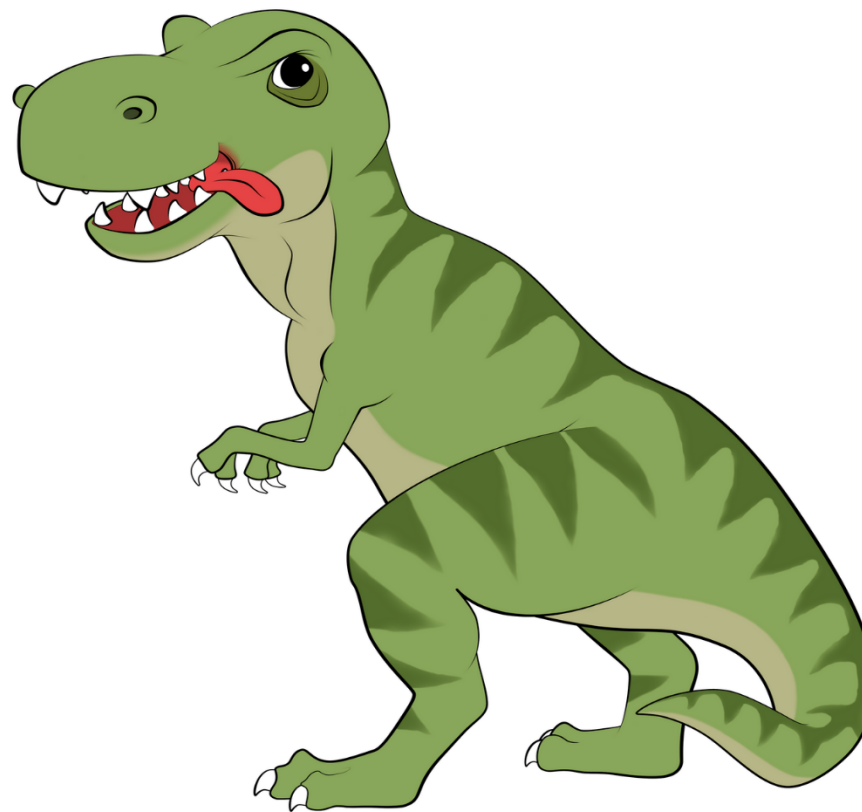
New CRATs must pass 5% probability of exhaustion test (unique to CRATs).

If $> 5\%$ probability of exhaustion, insert special clause in trust agreement, which provides for CRAT to terminate if market value gets down below 10% of initial fund amount plus 0.8% interest. This allows CRAT to qualify.



8. Pooled Income Funds

What exactly is this thing called a Pooled Income Fund??





8. Pooled Income Funds

Deductions are high for PIF contributions now

- **PIF charitable deduction formula is based on highest “Pooled Income Fund Annual Rate of Return” for past 3 calendar years**
- **PIFs that are “new” (fewer than 3 previous calendar years) must use a mandated interest rate of 2.2% in 2020**
- **This makes charitable deductions very high for gifts to Pooled Income Funds**
- **Right now: gift of \$100,000 made by 72-year-old to a “new” PIF, using 2.2% mandated interest rate, charitable deduction = \$76,364.00**



9. Relinquishing Split Interest Gifts

It ain't over till it's over...





9. Relinquishing Split Interest Gifts

CGA Established in 2016 with \$50,000.00

- **Charitable deduction was \$19,831.00**
- **Received \$10,381.79 in payments**
- **Received \$8,004.36 in tax-free payments**
- **Relinquished in 2020 (after June 30)**
- **Undistributed investment in contract = \$22,164.64 (additional charitable deduction)**



9. Relinquishing Split Interest Gifts

Retained Life Estate:

- **Established in 2010 by 72-year-old with property value at \$750,000.00**
- **Original charitable deduction = \$513,135.90**
- **Remaining Life Estate relinquished in 2020 by 82-year-old with property value at \$750,000**
- **Additional charitable deduction = \$60,543.30**



10. Continued Vitality of QCDs

QCD: strong as ever!





10. Continued Vitality of QCDs

Owners of traditional IRAs are now allowed to defer distributions until the age of 72 (previously it was 70 ½)

- **The rules regarding Qualified Charitable Distributions from traditional IRAs HAVE NOT CHANGED: Owners of traditional IRAs may still begin making these transfers at the age of 70 ½**
- **While some donors may decide to wait the additional 18 months before they make QCD transfers, other donors may still wish to make the transfers at the younger age**



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Hope you weren't holding your breath the whole time!





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Thank you for your time and attention!

We appreciate the great work you are all doing!

Stay safe and be well.



Questions?

- **To ask a question:**
 - **Send a message via chat box.**





Still Have a Question?

Contact: Jeffrey Frye

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