

## Fundamentals of Planned Giving

### Part Four: Advanced Planned Giving Methods

Date: August 2, 2022  
 Time: 1:00 – 2:30 Eastern  
 Presenter: Craig Wruck  
 Senior Advisor, PG Calc

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## Agenda

- Life income gifts
  - Charitable gift annuity
  - Charitable remainder trust
- Charitable lead trust
- Retained life estate

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## Life Income Gifts

Donor makes contribution now and receives income in return

- Amount of income can be fixed or variable
- Income can continue for one or more lifetimes, a term of years, or a combination of the two
- Income beneficiary can be donor or others
- Tax on long-term capital gains tax delayed or avoided
- Made during lifetime or in Will
- Life income gifts are **irrevocable**

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- Charitable gift annuity
  - Contract that promises fixed payments for life provided in exchange for an irrevocable contribution now
- Charitable remainder trust
  - Separate legal entity accepts contribution, holds & manages assets, makes payments to beneficiaries, distributes remainder to charity
  - Annuity trust pays fixed dollar amount
  - Unitrust pays fixed percentage of trust value
- Pooled income fund

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- Split interest contribution
  - Right to receive payments
  - Right to hold remainder
- Donor retains right to payments, contributes right to receive remainder in the future
- Charitable deduction for calculated present value of the right to hold the remainder
- Older (or fewer) beneficiaries or lower payout yields larger deduction

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**PG Calc** YOUR PARTNER IN PLANNED GIVING SUCCESS **Charitable Gift Annuity**

- Donor makes an irrevocable contribution to charity
- Charity issues contract promising to pay fixed amount annually for life
- Amount of payment is determined at time of gift and cannot change
- Taxation of payments:
  - Ordinary income
  - Tax-free income
  - Capital gain income

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### Charitable Gift Annuity Exchange

Donor gives money or property to charity

Charity promises to make annual payments to annuitant

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### Charitable Remainder Trust Relationships

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    graph LR
      A[Grantor / Donor] --> B[Trustee]
      B --> C[Income Beneficiary]
      C --> D[Remainder Beneficiary]
  
```

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### Charitable Remainder Trust

Requirements to qualify as CRT

- Remainder irrevocably directed charity
- Not perpetual: lifetimes, term of years, or combination of the two
- Income beneficiaries must be living at time trust is created
- Must make payments to beneficiaries at least annually
- Must be either "annuity trust" or "unitrust"

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## Charitable Remainder Trust

- **Standard (SCRUT, Type I)** – principal can be distributed if needed to make payment
- **Net income (NICRUT, Type II)** – beneficiary receives unitrust % or net income (dividends & interest), whichever is less
- **Make-up (NIMCRUT, Type III)** – Type II, but can make up past deficiencies with excesses in future years
- **Flip Trust** – begins as Type II or III, but can become Type I in the future after a triggering event (e.g., sale of real estate, occurrence of specific date)

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## Negotiating the Payout Rate

- Fixed at the time trust is created
- 5% minimum
- At least 10% deduction value to qualify
- Higher payout reduces the charitable deduction
- Lower payout can afford growth
- Selecting a payout higher than expected investment return can reduce payout amount over time

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## Deduction vs. Payout Rate

Charitable Deduction for \$500,000 Contribution to a Unitrust						
Payout Rate:	5%	6%	7%	8%	9%	10%
One Life 72	\$278,400	\$250,565	\$226,330	\$205,200	\$186,710	\$170,490
Two Lives 72	\$222,750	\$190,910	\$164,055	\$141,355	\$122,130	\$105,815

IRS Discount Rate is 3.6%

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## Taxation of Beneficiary Income

**Four tier payout rule:**

- 1. Ordinary income:** net income including dividends and interest collected by the trust
- 2. Capital gain income:** gains realized from sales by the trust
- 3. Tax-exempt:** municipal bonds and other tax-exempt income collected by the trust
- 4. Return of principal:** tax free to the beneficiary

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## Charitable Remainder Unitrust Example

5% Charitable Remainder Unitrust	
Beneficiary Age	72
Amount Donated	\$500,000
Payout Rate	5%
Charitable Deduction (CMFR = 3.6%)	\$278,440
Estimated Income First Full Year	\$25,000
(Future income will vary with trust value.)	

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## Life Income Projection

**Lifetime Income Projections for 5% Unitrust**

Projection runs for 18 years, life expectancy of a 72-year-old  
 Original Principal is \$500,000 with \$100,000 cost basis  
 Highest tax brackets apply: marginal income tax bracket = 37%,  
 capital gains = 20%, plus 3.8% Net Investment Income Tax surtax  
 Total investment return = 6% (2% income + 4% appreciation)

Charitable Deduction (CMFR = 3.6%)	\$278,440
Income Tax Savings	\$103,023
After-tax Cost of Gift	\$396,977
Total Before-tax Income to Beneficiary	\$490,369
Projected Remainder for Charity	\$598,074

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## Retained Life Estate

- Donor irrevocably contributes home or farm now but retains lifetime right to live in and use it
- Income tax deduction now for calculated value of charity's right to the property after life tenancy ends
- Donor continues to pay expenses for taxes, maintenance, et cetera
- Be mindful of risks including potential environmental issues

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## Retained Life Estate

Retained Life Estate in a Personal Residence or Farm	
Life Tennant age	72
Value of Property	\$500,000
Value of Buildings	\$333,333
Useful Life of Buildings	45 years
Salvage Value of Buildings	\$83,333
Charitable Deduction (CMFR = 3.6%)	\$286,100

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To ask a question click the Q&A button at the bottom

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**Still Have a Question?**

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