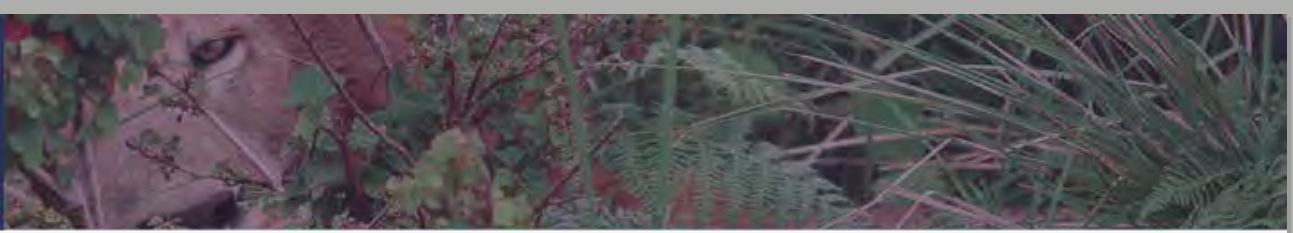




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SUCCESS



Advanced Planned Giving Methods



Date: June 23, 2020

Time: 1:00 – 2:30 Eastern

Presenter: Craig C. Wruck
Senior Advisor
PG Calc



Agenda

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



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**



Life Income Gifts

- Charitable gift annuity
 - Contract in exchange for a contribution that promises fixed payments for life
- Charitable remainder trust
 - Separate legal entity holds and 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



Charitable Deduction

- Split interest
 - 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



Charitable Gift Annuity

- Donor makes a current 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



Gift Annuity Example

Gift Annuity funded with:	Cash	Appreciated Property
Annuitant Age	72	72
Principal Donated	\$25,000	\$25,000
Cost Basis	\$25,000	\$5,000
Annuity Rate	4.9%	4.9%
Charitable Deduction (CMFR = 0.8%)	\$10,161	\$10,161
Annuity	\$1,225	\$1,225
Tax-free Income	\$1,023	\$205
Capital Gain Income	-0-	\$818
Ordinary Income	\$202	\$202
After 14.5 years the entire annuity becomes ordinary income.		



Charitable Gift Annuity

Notes:

- Contribution of appreciated property:
 - If donor is annuitant, portion of each payment taxed as long-term capital gain over life expectancy
 - If donor is not annuitant, portion of gain is taxable to donor in year of gift
- Deferred payment gift annuity
 - First annuity payment some years in future
 - Payout and deduction will be larger



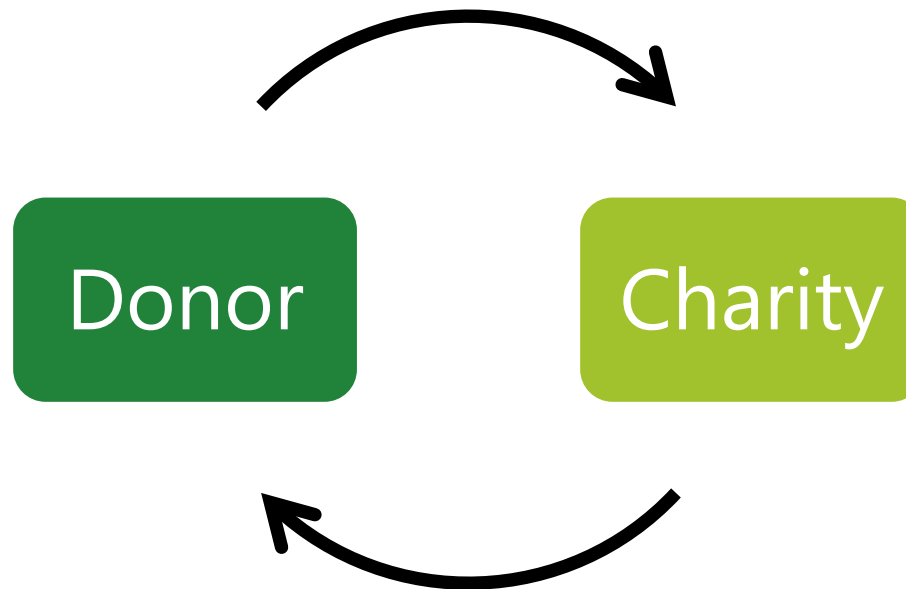
Deferred Payment Charitable Gift Annuity

Deferred Annuity funded with cash	
Annuitant Age at Date of Gift	55
Age at Date of First Payment	65
Principal Donated	\$25,000
Cost Basis	\$25,000
Annuity Rate	5.6%
Charitable Deduction (CMFR = 0.8%)	\$7,173
Annuity	\$1,400
Tax-free Portion	\$934
Ordinary Income	\$466
After 19.9 years, the entire annuity becomes ordinary income.	



Charitable Gift Annuity Exchange

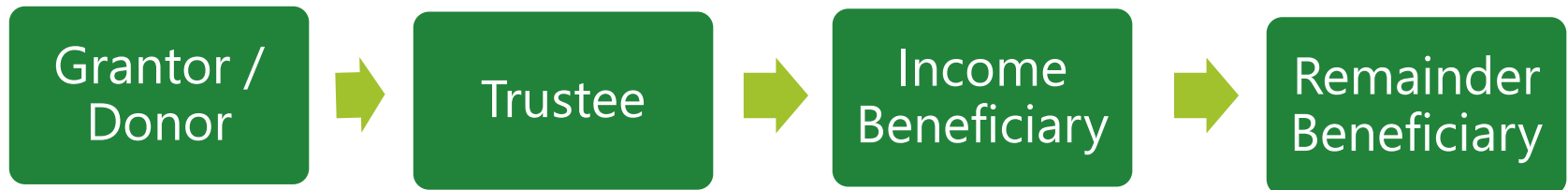
Donor gives money or property to charity



Charity promises to make annual payments to annuitant



Charitable Remainder Trust Relationships





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”



Unitrust Types

- 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



Negotiating the Payout Rate

- Fixed at the time trust is created
- 5% minimum
- At least 10% deduction value to qualify
- Higher payout reduces deduction (Page 9)
- Lower payout can afford growth
- Selecting a payout higher than expected investment return can reduce payout amount over time



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



Charitable Remainder Unitrust Example

5% Charitable Remainder Unitrust	
Beneficiary Age	72
Amount Donated	\$500,000
Payout Rate	5%
Charitable Deduction (CMFR = 0.8%)	\$275,880
Estimated Income First Full Year	\$25,000
(Future income will vary with trust value.)	



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

Income tax bracket 37%, 20% for capital gains, Medicare surtax (3.8%) applies

Total investment return (income + appreciation) 6% per year

Charitable Deduction (CMFR = 3.4%)	\$275,880
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Income Tax Savings	\$102,076
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After-tax Cost of Gift	\$397,924
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Total Before-tax Income to Beneficiary	\$490,369
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Projected Remainder for Charity	\$598,074
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CRUT vs. Sell & Reinvest

Lifetime Projections for 5% Unitrust vs. Sell & Reinvest

Projection runs for 18 years, life expectancy of a 72 year old

Original Principal is \$500,000 with \$100,000 cost basis

Income tax bracket 37%, 20% for capital gains, Medicare surtax (3.8%) applies

Total investment return (income + appreciation) 6% per year

	5% CRUT	Sell
Gross Principal	\$500,000	\$500,000
Capital Gains Tax Paid	\$0	\$95,200
Net Principal to Invest	\$500,000	\$404,800
Tax Savings from Charitable Deduction	\$102,076	\$0
Total Before-tax Income to Beneficiary	\$490,369	\$397,200
Remainder to Charity or Heirs	\$598,074	\$484,200



Charitable Lead Trust

- Pays income to charity for a term of years, then distributes remainder to individuals
- May be either annuity trust (pays fixed dollar amount) or unitrust (pays fixed percentage of trust value)
- “Non-grantor” type generates gift tax deduction, can reduce gift tax on transfer of the remainder to others



Charitable Lead Trust

- \$10 million asset contributed to 20-year Charitable Lead Annuity Trust
- CLAT pays \$545,000 to charity each year
- After 20 years, trust assets transfer to heirs
- Results:
 - \$10.9 million given to charity over 20 years
 - Transfer to heirs 20 years hence is tax-free due to gift tax deduction, potential savings of \$4 million



Retained Life Estate

- Donor irrevocably contributes home or farm now but retains right to live in and use it
- Income tax deduction now for calculated value of charity's right to property
- Donor continues to pay expenses for taxes, maintenance, et cetera



Retained Life Estate

Retained Life Estate in a Personal Residence	
Life Tenant age	72
Value of Property	\$500,000
Value of Buildings	\$350,000
Useful Life of Buildings	45 years
Salvage Value of Buildings	\$75,000
Charitable Deduction (CMFR = 0.8%)	\$382,440



Still Have a Question?

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