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## Advanced Planned Giving Methods



Date: July 31, 2018

Time: 1:00 – 2:30 Eastern

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Humboldt State University



## 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
  - ✓ Fixed or variable amount of income
  - ✓ For one or more lifetimes, a term of years, or a combination of the two
  - ✓ Income beneficiary can be donor or others
  - ✓ 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

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## 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

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## Gift Annuity Example

Charitable Gift Annuity funded with:	Cash	Appreciated Securities
Assumptions		
Annuitant Age	72	72
Principal Donated	\$25,000	\$25,000
Cost Basis	\$25,000	\$5,000
Annuity Rate	5.8%	5.8%
Charitable Deduction (CMFR = 3.4%)	\$10,638	\$10,638
Annuity	\$1,450	\$1,450
Tax-free Income	\$990	\$198
Capital Gain Income	n/a	\$792
Ordinary Income	\$460	\$460
After 14.5 years the entire annuity becomes ordinary income.		Page 6



## 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

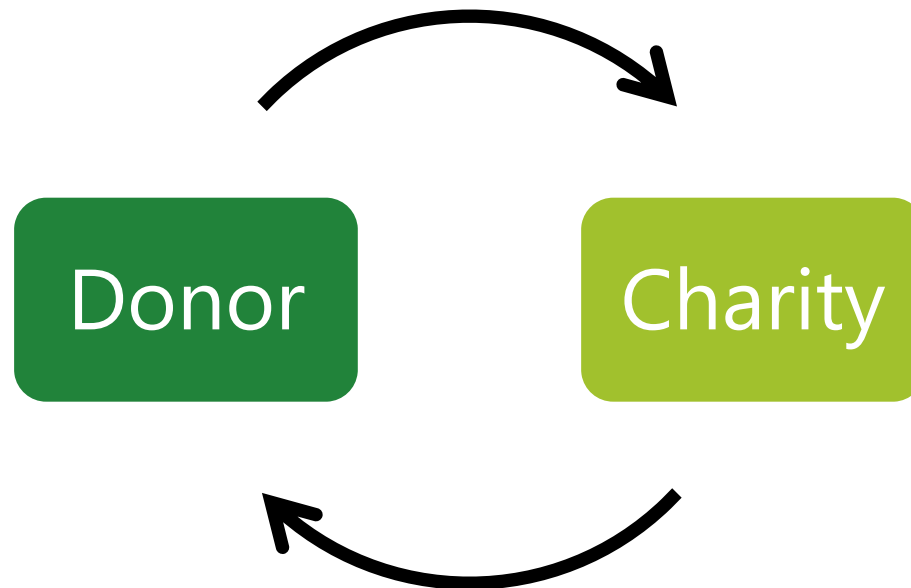
### Assumptions

Annuitant Age at Date of Gift	50
Age at Date of First Payment	65
Cash Contributed	\$25,000
Annuity Rate	8.8%
Charitable Deduction (CMFR = 3.4%)	\$10,230
Annuity	\$2,200
Tax-free Income	\$741
Ordinary Income	\$1,459
After 19.9 years the entire annuity becomes ordinary income.	



## Charitable Gift Annuity Exchange

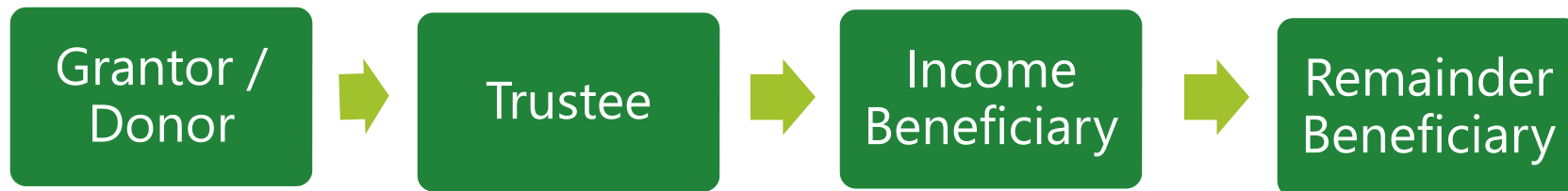
Donor gives money or property to charity



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”

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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



## 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 11)
- Lower payout can afford growth
- Payout higher than expected investment return can reduce payout amount over time

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## 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



## Charitable Remainder Unitrust Example

### Charitable Remainder Unitrust funded with appreciated property

Assumptions	
Beneficiary Age	72
Value of Property Donated	\$500,000
Cost Basis of Property	\$100,000
Payout Rate	5%
Charitable Deduction (CMFR = 3.4%)	\$278,260
Estimated Income in First Full Year	\$25,000
(Future income will vary each year with trust value.)	





## Life Income Projection

Assumptions	
Projection runs for 20 years, measuring life is age 72	
Original Principal is \$500,000 with \$100,000 cost basis	
Income tax bracket 37%, 20% for capital gains	
Total investment return (income + appreciation) 6% per year	
Charitable Deduction (CMFR = 3.4%)	\$278,260
Income Tax Savings at 37%	\$102,956
After-tax Cost of Gift	\$397,044
Total Before-tax Income to Beneficiary	\$550,475
Projected Remainder for Charity	\$610,095



## CRUT vs. Sell & Reinvest

### Assumptions

Projection runs for 14 years, measuring life is age 72

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

Income tax bracket 37%, 20% for capital gains

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

	5% CRUT	Sell
Gross Principal	\$500,000	\$500,000
Net Principal to Invest	\$500,000	\$404,800
Capital Gains Tax Paid	\$0	\$95,200
Tax Savings from Charitable Deduction	\$102,956	\$0
Total Before-tax Income to Beneficiary	\$550,475	\$445,665
Remainder to Charity or Heirs	\$610,095	\$493,933

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## Charitable Lead Trust

- Pays income to charity for a term of years, then distributes remainder to individuals
- May be either annuity trust or unitrust
- “Non-grantor” type generates gift tax deduction that can reduce gift tax on transfer of remainder to others



## Charitable Lead Trust

- \$10 million asset contributed to 20-year CLAT
- CLAT pays \$635,200 to charity each year
- After 20 years, trust assets transfer to heirs
- Results:
  - ✓ \$12.7 million given to charity over 20 years
  - ✓ Transfer to heirs 20 years hence is tax-free due to gift tax deduction



## 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

### Assumptions

Life Tenant age	72
Value of Property	\$500,000
Value of Buildings	\$350,000
Useful Life of Buildings	45 years
Salvage Value of Buildings	\$100,000
Charitable Deduction (CMFR = 3.4%)	\$292,005



## Still Have a Question?

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