


**PG Calc** YOUR PARTNER IN PLANNED GIVING SUCCESS

### Advanced Planned Giving Methods



Date: June 23, 2020  
 Time: 1:00 – 2:30 Eastern  
 Presenter: Craig C. 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**

Pages 1-2  
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**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

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**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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### Charitable Gift Annuity Exchange

Donor gives money or property to charity

```

    graph TD
      Donor[Donor] -- "Donor gives money or property to charity" --> Charity[Charity]
      Charity -- "Charity promises to make annual payments to annuitant" --> Donor
  
```

Charity promises to make annual payments to annuitant

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### Charitable Remainder Trust Relationships

```

    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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**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

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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 deduction (Page 9)
- Lower payout can afford growth
- Selecting a payout higher than expected investment return can reduce payout amount over time

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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

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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 = 0.8%)          | \$275,880 |
| 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                     |           |
| 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 |
| Income Tax Savings                                                            | \$102,076 |
| After-tax Cost of Gift                                                        | \$397,924 |
| Total Before-tax Income to Beneficiary                                        | \$490,369 |
| 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 |

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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 (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

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**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

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**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

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**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 |

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**Still Have a Question?**

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