


PG Calc YOUR PARTNER IN PLANNED GIVING SUCCESS

Advanced Planned Giving Methods



Date: July 31, 2018
 Time: 1:00 – 2:30 Eastern
 Presenter: Craig C. Wruck
 Vice President, Advancement
 Humboldt State University

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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
 - ✓ 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**

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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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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		
Tax-free Income	\$1,450	\$1,450
Capital Gain Income	\$990	\$198
Ordinary Income	n/a	\$792
	\$460	\$460

After 14.5 years the entire annuity becomes ordinary income. Page 6

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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

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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	
Tax-free Income	\$2,200
Ordinary Income	\$741
	\$1,459

After 19.9 years the entire annuity becomes ordinary income. Page 7

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Charitable Gift Annuity Exchange

Donor gives money or property to charity

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    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

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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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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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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

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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.)

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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


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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

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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

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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

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

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Still Have a Question?

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