


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



## Fundamentals of Planned Giving

### Part Two: Basic Planned Giving Methods

Date: July 16, 2024  
Time: 1:00 – 2:30 Eastern  
Presenter: Craig Wruck  
Senior Advisor, PG Calc

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## Agenda

- Charitable Bequests
- Qualified Retirement Plan Assets
- Life Insurance
- Bargain Sale
- "Family Foundations"

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## Charitable Bequests

- Testamentary gifts – transfer made upon death, revocable during lifetime
- Charitable bequests – specific, contingent, remainder
- Considerations regarding restrictions
- The "probate" process

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### Beneficiary Designations

- Directs the remainder (or a portion of it) to charity upon the death of the account owner
- Applicable to most financial accounts (bank, savings, investment) and many financial instruments (annuity contracts & insurance policies)
- Similar to a charitable bequest, but easier: no need to write or amend a will or trust
- “POD” = pay on death
- “TOD” = transfer on death

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### Qualified Retirement Plans

- “Custody” account – accepts contributions of pre-tax income, holds and invests the funds on a tax-deferred basis
- Withdrawals are taxed as ordinary income
- Purpose: provide retirement income – not to encourage savings or build estate value
  - Before 59½: 10% early withdrawal penalty
  - After 73: Minimum required distributions

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### Retirement Plan – Contribution at Death

Donor, with an estate of \$500,000 including an IRA worth \$100,000, plans a charitable bequest of \$100,000

	Charitable Bequest	IRA to Charity
Combined value of estate	\$500,000	\$500,000
IRA transferred to charity	n/a	- \$100,000
Income tax on IRA (est. 32%)	- 32,000	-0-
Charitable bequest	- 100,000	n/a
Remainder to heir	\$368,000	\$400,000

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### Retirement Plan – Contribution at Death

Notes:

- Expedited payment to charity
- Distribution must be directly from plan, not a provision in a will
- Consider coordinating provision in the will
- Careful planning for married couples

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### Retirement Plan – Gift During Lifetime

Simply withdraw money from qualified plan, then contribute cash to charity

- Assuming over age 59½, should be a wash:
  - Withdrawal creates taxable income
  - Contribution creates offsetting deduction
- Complexities of standby withholding, timing, AGI limits, tax reporting

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### Qualified Charitable Distribution (QCD)

“IRA Charitable Rollover”

Transfer up to \$105,000 from IRA to charity with no income tax on withdrawal

- Donor must be age 70½ or older
- Outright contribution (no life income plans)
- Transfer must be from the IRA administrator directly to the charity
- No supporting organizations, private foundations, or donor advised funds

Note: QCD counts toward Required Minimum Distributions without creating taxable income for the donor

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### QCD plus RMD 70½ vs 73

- 70½ – donor can start making QCD contributions
- 73 – donor must start taking RMDs
  - RMDs create taxable income
  - 25% penalty for failure to take the RMD
- QCDs count toward the RMD without creating taxable income
- Should a donor without an RMD consider a QCD?

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### Life Insurance Policy

Insurer	Owner	Insured	Beneficiary
Promises to pay an amount of money (the death benefit) upon the death of the insured	Buys and (usually) pays for the policy; has right to change beneficiary and to give away ownership	The one upon whose death the insurer will pay the death benefit	The one to whom the death benefit will be paid

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### Life Insurance Premiums

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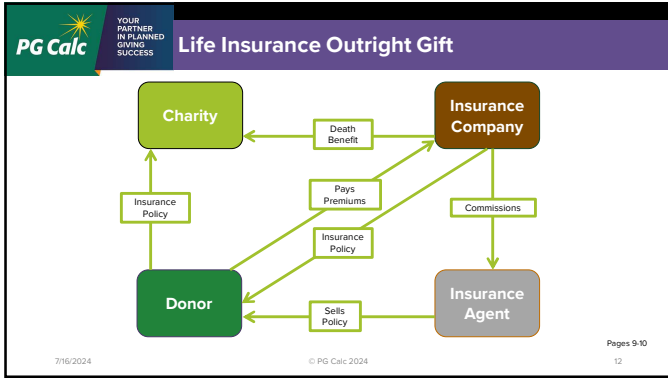
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- PG Calc** YOUR PARTNER IN PLANNED GIVING SUCCESS **Life Insurance – Other Considerations**
- Charity must be named beneficiary in order to receive death benefit
  - Income tax deductions if donor transfers ownership to charity
    - Value of policy at time of gift
    - Future premium payments
  - Charity is not obligated to make premium payments – need to manage donor’s expectations
  - Outstanding policy loans, conditions may reduce value of death benefit
  - Policies are valuable assets, should be periodically reviewed and evaluated
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- PG Calc** YOUR PARTNER IN PLANNED GIVING SUCCESS **Bargain Sale**
- Donor sells property to charity for something less than the full fair market value of the property
  - Charitable deduction for difference between the fair market value and the sale price
  - Donor will be liable for capital gains tax on portion of capital gain – cannot contribute the gain only
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## Bargain Sale Example

FMV = \$50,000, cost basis = \$20,000

- Donor sells to charity for \$10,000
  - Charitable deduction = \$40,000
  - \$50,000 - \$10,000
- Donor pays capital gains tax on \$6,000
- Capital gain = \$30,000
- $(\$30,000 / \$50,000) \times \$10,000 = \$6,000$

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## Family Foundations

	Donor Advised Fund	Private Foundation
Origin of tax-exempt status	Fund account held by an established public charity	Separate entity (can be either a trust or a corporation)
AGI limit on charitable deduction	60% cash 30% appreciated property	30% cash 20% appreciated property
Donor control of distributions	Right to recommend distributions to be made by the public charity	Controlled by the governing board, limited by private foundation rules
Minimum distribution	No requirement	Minimum 5%
Donor privacy	Can be anonymous	Requires significant public disclosures
Administration	Provided by sponsoring public charity	Entity provides accounting, files tax returns, etc.

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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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