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Fundamentals of Planned Giving

Part Four:

Advanced Planned Giving Methods

Date: July 30, 2024

Time: 1:00 – 2:30 Eastern

Presenter: Craig 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**



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Life Income Gifts

- Charitable gift annuity
 - Contract that promises fixed payments for life provided in exchange for an irrevocable contribution now
- Charitable remainder trust
 - Separate legal entity accepts contribution, holds & 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 contribution
 - 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 an irrevocable 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 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	6.6%	6.6%
Charitable Deduction (CMFR = 3.6%)	\$9,434	\$9,434
Annuity	\$1,650	\$1,650
Tax-free Income	\$1,074	\$215
Capital Gain Income	-0-	\$859
Ordinary Income	\$576	\$576

After 14.5 years the entire annuity becomes ordinary income.

Notes:

- Contribution of appreciated property:
 - If donor is the annuitant, a portion of each payment can be taxed as long-term capital gain over life expectancy
 - If donor is not the annuitant, a portion of the gain is taxable to donor in year the gift is made
- 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

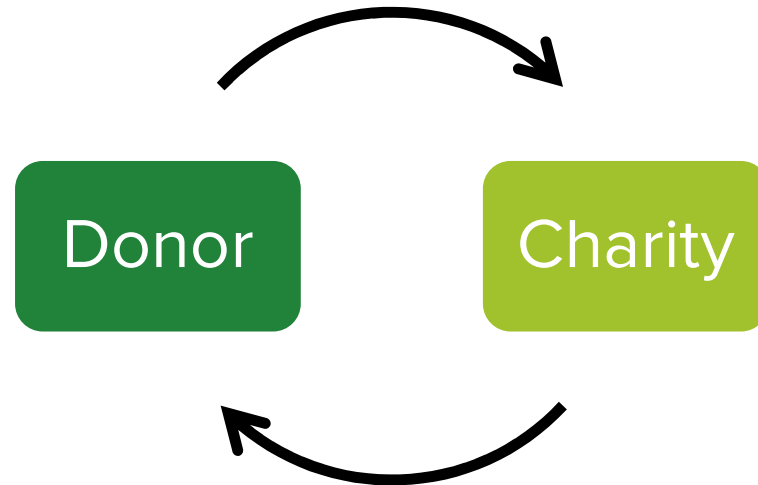
Deferred Payment Charitable Gift Annuity Funded With Cash

Annuitant Age at Date of Gift	50
Age at Date of First Payment	65
Principal Donated	\$25,000
Cost Basis	\$25,000
Annuity Rate	11.4%
Charitable Deduction (CMFR = 3.6%)	\$10,832
Annuity	\$2,850
Tax-free Portion	\$712.50
Ordinary Income	\$2,137.50

After 19.9 years, the entire annuity becomes ordinary income.

Charitable Gift Annuity Exchange

Donor gives money or property to charity

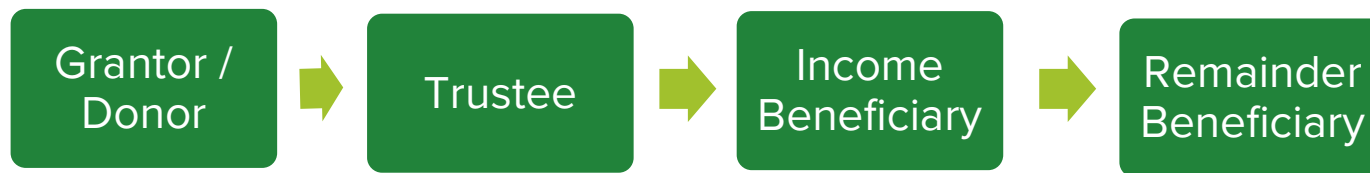


Charity promises to make annual payments to annuitant



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Charitable Remainder Trust Relationships



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”

Charitable Remainder Trust

- **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 after a triggering event (e.g., sale of real estate, occurrence of specific date)



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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 the charitable deduction
- Lower payout can afford growth
- Selecting a payout higher than expected investment return can reduce payout amount over time



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Deduction vs. Payout Rate

Charitable Deduction for \$500,000 Contribution to a Unitrust

Payout Rate:	5%	6%	7%	8%	9%	10%
One Life 72	\$265,620	\$236,870	\$212,075	\$190,630	\$172,030	\$155,840
Two Lives 72	\$211,540	\$179,290	\$152,325	\$129,740	\$110,795	\$94,870
IRS Discount Rate is 5.0%						

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:** tax free to the beneficiary



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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 = 5.0%)	\$265,620
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

Marginal income tax rate is 24%; capital gains rate is 15%

Total investment return = 6% (2% income + 4% appreciation)

Charitable Deduction (CMFR = 5.0%)	\$265,620
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Income Tax Savings	\$63,749
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After-tax Cost of Gift	\$436,251
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Total After-tax Income to Beneficiary	\$399,160
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Projected Remainder for Charity	\$598,074
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CRUT vs. Sell & Reinvest

Lifetime Income 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

Marginal income tax rate is 24%; capital gains rate is 15%

Total investment return = 6% (2% income + 4% appreciation)

	5% CRUT	Sell & Reinvest
Gross Principal	\$500,000	\$500,000
Capital Gains Tax Paid	\$0	\$60,000
Net Principal to Invest	\$500,000	\$440,000
Tax Savings from Charitable Deduction	\$63,749	\$0
Total Before-tax Income to Beneficiary	\$490,369	\$431,524
Remainder to Charity or Heirs	\$598,074	\$526,305

QCD for Life Income Gift The “Legacy IRA Act”

- New law: QCD in exchange for life income gift subject to limitations:
 - Once in a lifetime only (during one tax year)
 - Aggregate total not more than \$53,000 (in 2024)
 - Charitable remainder trust or gift annuity paying at least 5%
 - QCD is only funding asset; donor must be age 70½ or older
 - Beneficiary can be donor and/or spouse only
 - Entire beneficiary payment is ordinary income
 - No charitable deduction (but no tax on QCD either)

Charitable Lead Trust

- Pays income to charity for a term of years, then distributes remainder to individuals (often heirs)
- May be either annuity trust (pays fixed dollar amount) or unitrust (pays fixed percentage of trust value)
- “Non-grantor” type generates gift tax deduction, which can reduce gift tax on future 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 \$802,500 to charity each year
- After 20 years, trust assets transfer to heirs
- Results:
 - \$16 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 lifetime right to live in and use it
- Income tax deduction now for calculated value of charity's right to the property after life tenancy ends
- Donor continues to pay expenses for taxes, maintenance, et cetera
- Be mindful of risks including potential environmental issues



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Retained Life Estate

Retained Life Estate in a Personal Residence or Farm	
Life Tenant age	72
Value of Property	\$500,000
Value of Buildings	\$350,000
Useful Life of Buildings	40 years
Salvage Value of Buildings	\$90,000
Charitable Deduction (CMFR = 5.0%)	\$228,350



To ask a question click the
Q&A button at the bottom

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Still Have a Question?

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