



Fundamentals of Planned Giving

Part 4: Advanced Planned Giving Methods



Date: March 23, 2016
Time: 1:00 – 2:30 Eastern Time
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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**

Page 1



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

Pages 1-2



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

Pages 2-3



When Was First Gift Annuity Created?

Answer:



Questions?





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

Pages 3-5



| 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 | 5.4% | 5.4% |
| Charitable Deduction (CMFR = 2.2%) | \$10,378 | \$10,378 |
| Annuity | \$1,350 | \$1,350 |
| Tax-free Income | \$1,008 | \$202 |
| Capital Gain Income * | \$0 | \$806 |
| Ordinary Income | \$342 | \$342 |
| * Capital gain of \$11,698 must be reported over 14.5 years, after which 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 Gift Annuity

Assumptions

| | |
|--|----------------|
| Annuitant Age at Date of Gift | 50 |
| Age at Date of First Payment | 65 |
| Cash Contributed | \$25,000 |
| Annuity Rate | 7.6% |
| Charitable Deduction (CMFR = 2.4%) | \$7,993 |
| Annuity | \$1,900 |
| Tax-free Income | \$855 |
| Ordinary Income | \$1,045 |
| After 19.9 years the entire annuity becomes ordinary income. | |

Page 7



What is Average Age of Annuitant?

Answer:



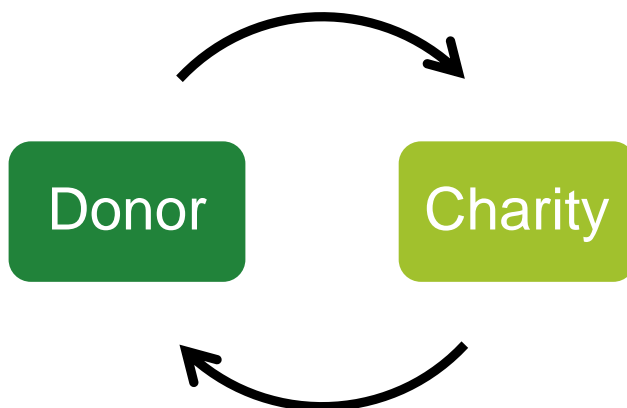
Questions?





Charitable Gift Annuity

Donor gives money or property to charity



Charity promises to make annual payments to annuitant



Charitable Remainder Trust





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”

Pages 7-8



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

Pages 8-9



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

Page 9

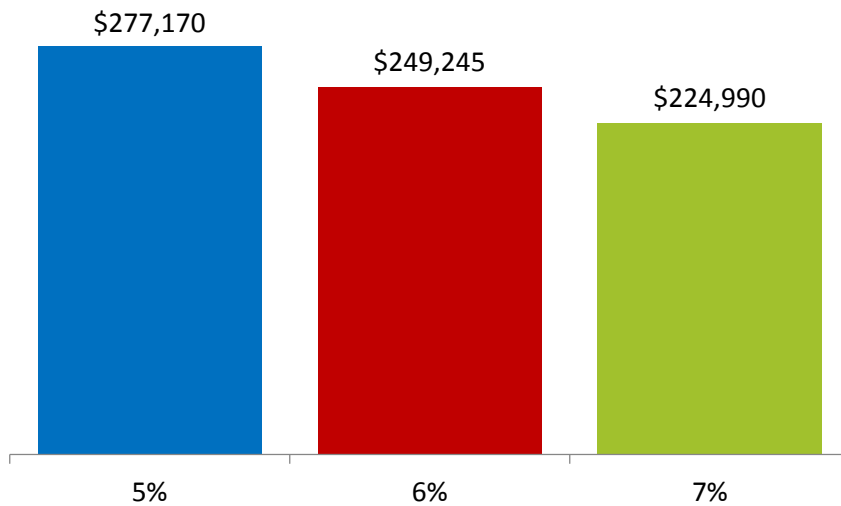


Negotiating the Payout Rate

- Fixed at the time trust is created
- 5% minimum
- At least 10% deduction value
- Lower payout can afford growth
- Payout higher than expected investment return is folly

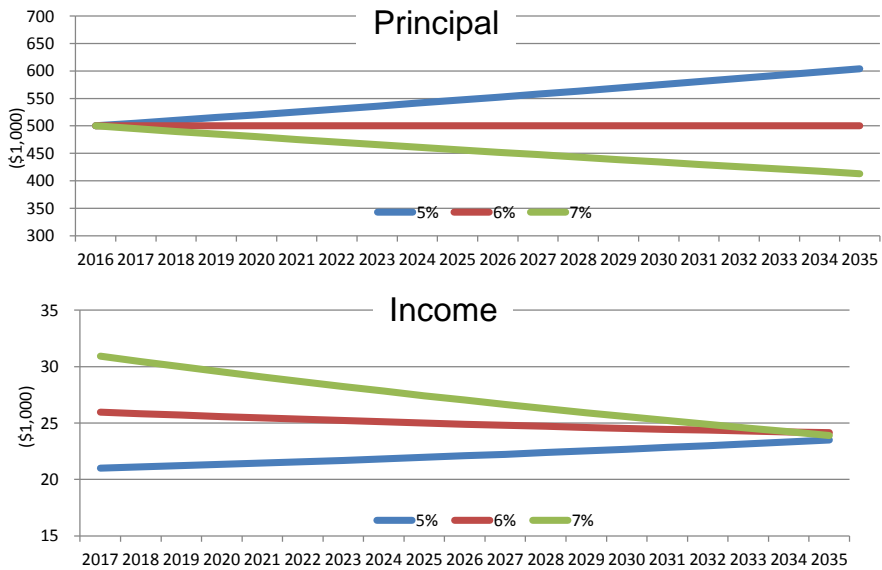


Deduction Value, \$500,000 to 5% CRUT (Age 72, CMFR 2.2%)





Principal & Income Projections CRUT, 20 years, 6% net total return





Charitable Remainder Unitrust

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 = 2.4%) | \$277,170 |
| Estimated Income in First Full Year | \$25,000 |
| (Future income will vary each year with trust value.) | |



Life Income Projection

Assumptions

Projection runs for 14 years (life expectancy at age 72)

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

Income tax bracket 35%, 15% for capital gains

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

Charitable Deduction

\$277,170

Income Tax Savings at 35%

\$97,010

After-tax Cost of Gift

\$402,990

Total Before-tax Income to Beneficiary

\$373,686

Projected Remainder for Charity

\$574,737

Page 11



CRUT vs. Sell & Reinvest

Assumptions

Projection runs for 14 years (life expectancy at age 72)

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

Income tax bracket 35%, 15% 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 | \$424,800 |
| Capital Gains Tax Paid | \$0 | \$75,200 |
| Tax Savings from Charitable Deduction | \$97,010 | \$0 |
| Total Before-tax Income to Beneficiary | \$373,686 | \$217,748 |
| Remainder to Charity or Heirs | \$833,327 | \$775,810 |

Page 11



How Many CRTs?

Answer:



Questions?





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

Pages 12-13



Charitable Lead Annuity Trust

- \$10 million asset contributed to 20-year CLAT
- CLAT pays \$612,500 to charity each year
- After 20 years, trust assets transfer to heirs
- Results:
 - \$12.25 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 is Age 72 | 72 |
| Value of Property is \$600,000 | \$600,000 |
| Value of Buildings is \$400,000 | \$400,000 |
| Useful Life of Buildings is 45 years | 45 years |
| Salvage Value of Building is \$100,000 | \$150,000 |
| Charitable Deduction (CMFR = 2.4%) | \$417,157 |



Questions?





Still Have a Question?

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