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## Fundamentals of Planned Giving Part 4: Advanced Planned Giving Methods



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

Pages 1-2

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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

Pages 2-3

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## When Was First Gift Annuity Created?

Answer:

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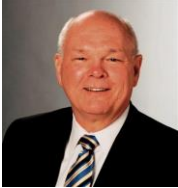
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## Questions?



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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 funded with:	Cash	Appreciated Securities
<b>Assumptions</b>		
Annuitant Age	72	72
Principal Donated	\$25,000	\$25,000
Cost Basis	\$25,000	\$5,000
Annuity Rate	5.4%	5.4%
<b>Charitable Deduction (CMFR = 2.2%)</b>	<b>\$10,378</b>	<b>\$10,378</b>
<b>Annuity</b>	<b>\$1,350</b>	<b>\$1,350</b>
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.

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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 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%
<b>Charitable Deduction (CMFR = 2.4%)</b>	<b>\$7,993</b>
<b>Annuity</b>	<b>\$1,900</b>
Tax-free Income	\$855
Ordinary Income	\$1,045
After 19.9 years the entire annuity becomes ordinary income.	

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## What is Average Age of Annuitant?

Answer:

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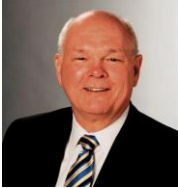
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## Questions?



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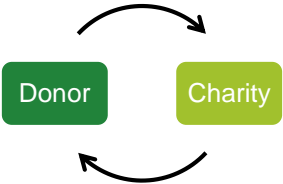
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## Charitable Gift Annuity

Donor gives money or property to charity



Charity promises to make annual payments to annuitant

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## Charitable Remainder Trust



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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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## 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
- Lower payout can afford growth
- Payout higher than expected investment return is folly

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

Payout Rate	Deduction Value
5%	\$277,170
6%	\$249,245
7%	\$224,990

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

The figure consists of two line graphs. The top graph, titled 'Principal', shows the value of the principal in thousands of dollars (\$1,000) from 2017 to 2035. Three lines represent payout rates of 5% (blue), 6% (red), and 7% (green). The 5% line starts at approximately \$450,000 and rises to about \$650,000. The 6% line starts at \$450,000 and remains flat at \$450,000. The 7% line starts at \$450,000 and declines to about \$350,000. The bottom graph, titled 'Income', shows the annual income in thousands of dollars (\$1,000) from 2017 to 2035. The 5% line starts at \$20,000 and rises to about \$25,000. The 6% line starts at \$25,000 and declines to about \$22,000. The 7% line starts at \$30,000 and declines to about \$20,000.

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## How Many CRTs?

Answer:

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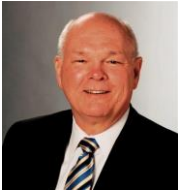
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## Questions?



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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 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

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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 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
<b>Charitable Deduction (CMFR = 2.4%)</b>	<b>\$417,157</b>

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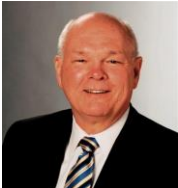
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## Questions?



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## Still Have a Question?

**Contact:** Craig Wruck

**E-mail:** [craig.wruck@gmail.com](mailto:craig.wruck@gmail.com)

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