Planned Giving Essentials

Date:	August 31, 2017
Time:	1:00 – 2:30 Eastern Time
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Overview

- Perspectives about planned giving fundraising
- Taxation basics
- Types of planned gifts
- Discussing planned gifts with donors

Why People Make Charitable Gifts

- Have assets to give away
- Believe in the institution
- The institution shares their values
- They have benefited from the institution
- Personal satisfaction through giving
- Asked by the right person

What's Different About Planned Gifts?

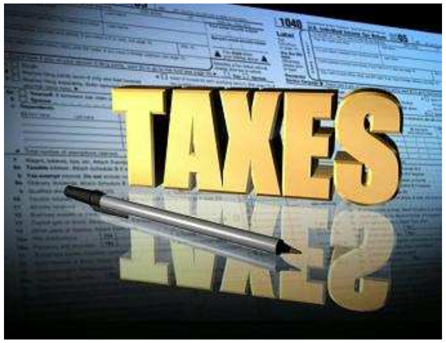
- Financial and estate planning issues – advisors may be involved (encouraged)
- Gifts from assets, not income
- Often when there is a lifecycle event
- Often the "ultimate gift"
- Creates a pipeline for future support
- **Donors make planned gifts on their clock, not ours**

Characteristics of Planned Giving Donors

- Long-time and consistent giving – modest amounts
- May be “cash poor” but “asset rich”
- Own highly appreciated assets (stocks, real estate)
- May be single or widowed
- Interested in how to maximize giving - opportunities for blended gift
- Tax considerations can affect timing and/or how gift is made

Basic Tax Information: Charitable Deduction

- Gift of cash – deduct up to 50% of Adjusted Gross Income (AGI)
- Gift of long term capital gain assets – deduct up to 30% of AGI
- Use the deduction in year of gift + 5 year carryforward
- Does the donor itemize their deductions?



Basic Tax Information: Capital Gain Assets

- Capital gain property
  - Long-term capital gain – owned one year + one day
  - Short-term capital gain – owned one year or less
- Capital gains tax on sale when appreciated in value
- Giving long-term capital gain assets – avoid/reduce capital gain taxes
- Capital loss assets – sell and give cash to Charity
- Short term gain – ordinary income/reduced deduction

Estate Tax Fundamentals

- Federal estate taxes – affects the largest estates
- $5.49 million exemption per individual
- Portability
- Unlimited marital deduction (US citizen)
- Unlimited charitable deduction
- Step-up in basis
- State estate and inheritance taxes

Gift Tax

- Assessed on donor (not donee) on gifts made during life
- Annual exclusion
  - $14,000 per donee (spouses can double)
  - Gifts under exclusion amount not reportable
  - Gifts in excess of exclusion erode exemption amount (unified with estate tax)
- Unlimited charitable deduction (gift tax return may still need to be filed)
- Unlimited marital deduction (U.S. citizen)

Taxes – Changes Coming?

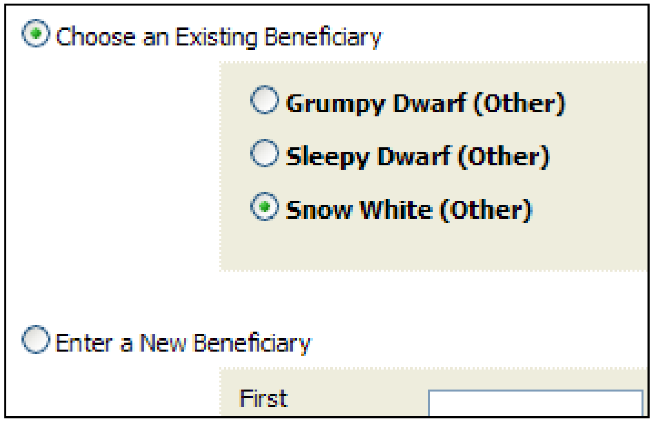
- Income tax
  - Tax brackets (fewer and lower)
  - Standard deduction (increased)
  - Charitable deduction (remain)
  - Capital gains (keep or reduce)
- Estate tax
  - Repeal
  - Step-up in basis (keep, eliminate, or modify)

Methods of Giving: Charitable Bequests

- Clause in a will or trust
- Specific amount or Residuary
- Restricted vs. Unrestricted
- Flexible – donor retains control of assets
- Revocable – can be changed in the future

Methods of Giving: Beneficiary Designations

- A person's will does not control the distribution of these assets
  - IRA, 401(k), 403(b), life insurance policy, POD (Payable on Death) account
- Tax-wise – heirs pay taxes, Charity doesn't
- Easy to arrange



Income in Respect of a Decedent (IRD)

- Income tax issue, but arises in connection with transfers upon death
- If income associated with an asset would have been taxed in hands of decedent had he/she remained alive, new owner/beneficiary of asset will be taxed on income as it is paid
- Retirement plans (Traditional IRAs, 401(k)s, 403(b)s, etc.) and certain other assets feature IRD; when distributed to charity, no tax is owed

Prospects: Bequests/Designations

- Members of monthly giving program
- Consistent long-time donors
- Childless
- Board of Trustee members
- Major gift donors/Endowed fund donors
- Donors with Donor-Advised Funds
- Volunteers
- Age demographic

Methods of Giving: Life Insurance

- Naming charity as beneficiary
- Prospects for gift, naming charity as:
  - Primary beneficiary: donors with no heirs or have otherwise provided for heirs; want to retain control
  - Co-beneficiary: need to retain some value for family
  - Contingent beneficiary: need to retain value for family but willing to give if no surviving heirs

Charitable IRA Rollover

- Traditional and Roth IRA only (can rollover other qualified plan to IRA, then make rollover gift)
- Minimum age – 70 ½
- Maximum amount – $100,000
- Not permitted to private foundation, supporting organization, or donor-advised fund
- Not permitted for life income plan
- Can fulfill a pledge
- Counts toward RMD

Prospects: Charitable IRA Rollover

Donors who:

- Do not itemize deductions
- Would lose deductions with increase in income
- Already contribute 50% or more of income
- Like the simplicity of making gift directly from an IRA

Methods of Giving: Gift Annuities

- Donor irrevocably transfers cash or property to charity
- Charity pays fixed amount to one or two annuitants for life
- Rate based on age(s) of annuitant(s)
- Unlimited obligation of charity
- What remains at death (“residuum”) goes to the charity

Prospects: Gift Annuities

- Immediate gift annuities:
  - Attractive to those mid-70s and older
  - Retired
  - Fiscally conservative, uncomfortable with debt
  - Not wealthy or don’t think they are
  - Annual fund donors, usually very low amounts
  - Worried about outliving their resources
  - Often single (widowed)

Prospects: Gift Annuities

- Deferred gift annuities
  - Mid-50s to mid-60s (per ACGA 2013, 73% are 70 or younger)
  - Want supplemental retirement plan
  - Deduction now, income later

- Flexible deferred gift annuities
  - Similar profile to DGAs
  - Not sure when will retire/want income to start
- Annuity for someone else
  - Elderly parent, sibling, child, employee

Methods of Giving: Charitable Remainder Trusts

- Donor irrevocably transfers cash or property into the trust
- Payments to designated beneficiaries (no limit), for life or term of up to 20 years
- Payout rate – 5% to 50%
- What remains at termination of trust goes to designated charity(ies)

Methods of Giving: Charitable Remainder Trusts

- Annuity trusts - CRAT
  Payments equal fixed $ amount
- Unitrusts - CRUT
  Payments equal fixed % of trust value as revalued annually
  - Net income, Net income w/makeup, Flip, Flip w/makeup variations
- Unlike CGA, payments are not obligation of charity; payments end if trust funds depleted

Prospects: Charitable Remainder Trusts

- Younger than CGA donors
- Experienced investors
- Comfortable with risk
- Substantial assets
- Looking for income stream over two generations
- Open to more complicated process and willingness to involve/pay an advisor
- Wants to be involved in sale of gift asset (trustee)

Knowing the Planned Giver

- Life Events
  - Planned gifts often result from events in donors life
- Changes that destabilize donor’s life
  - Approaching death (cancer diagnosis for example)
  - Becoming a widow or widower
  - Divorce
  - Grandchildren
  - Increasing assets
  - Retirement

Knowing a Planned Giver by What They Own

- Real Estate
  - Capital gain on sale, perhaps no income, illiquid
- Retirement plans
  - IRD assets
- Publicly traded securities
  - Capital gain on sale, perhaps income on sale
- Closely held business
  - Capital gain on sale, illiquid, no income

Talking To and Motivating Prospects

- Starting the conversation
- Avoid technical talk
- Open-ended questions
- Let the donor tell her story
  - "Why did you make your first gift to us?"
  - "How did you get involved with us?"
  - "Why did you choose us?"

What To Listen For

- Illiquid assets (real estate) – vacation home
- Multiple financial goals – son is bad with money
- Provide for heirs – daughter has a low paying job
- Sale of family business
- Assets producing little income – CD's, growth stocks

What To Listen For

- Retirement planning – need income
- Can make a major gift from an estate
- Desire to simplify financial matters
- No longer wants to manage assets

How To Talk About Planned Giving – What You Can Say

- “Many supporters choose to include Charity for a gift in their estate”
- “Estate gifts have had great impact on Charity. Have you ever considered a gift from your estate?”

include a charity

Help the work live on.

How To Talk About Planned Giving – What You Can Say

- "There are ways to make a gift to Charity that will actually save taxes and leave more for/provide income to your family members – would you be interested in learning more?"
- Mention the tax implications of leaving a gift to Charity from a retirement plan [IRA, 401(k), 403(b)] rather than naming Charity in a will

Conclusion

- Don’t worry about having all the technical answers – know who does, internal or external
- Do focus on listening to donor clues
- If you don’t know something: “let me look into that further and get back to you”

Questions?

Still Have a Question?

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