



Problem Solving with Planned Gifts



Date: July 31, 2014

Time: 1:00 – 2:30 Eastern Time

Presenter: Frank Minton
Principal
Frank Minton Consulting, LLC





Objective of Webinar

To demonstrate how creative adaptations and combinations of planned giving vehicles can solve donor problems.

Methodology

- Thirteen case studios, each beginning with a problem and then proposing a solution.
- Two Question and Answer periods.



Gift Planning and Federal Estate Tax

Year	Percent of Estates Subject to Estate Tax
1976	8%
2000	Over 2%
2014	Less than .3%

Conclusion: Except for the very wealthy, the Federal Estate Tax is no longer a consideration in gift planning.

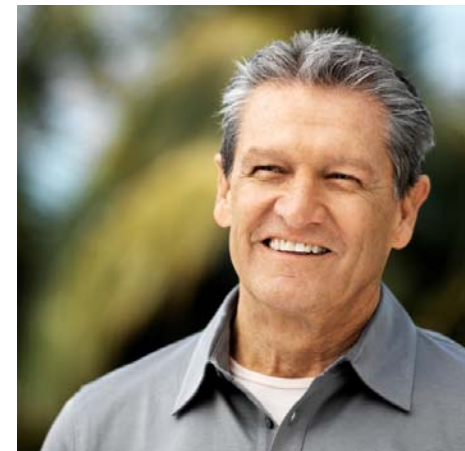


Example of Fred

Estate Value	\$2,000,000
Objectives:	
Leave to two daughters	\$1,800,000
Leave to charity	200,000

Retirement funds in a Roth IRA

Will the charitable gift result in tax savings?





Solution for Fred

- Fred advises each daughter of charitable objective
- Fred leaves a bequest of \$1,000,000 to each daughter
- Each daughter, per Fred's wishes, contributes \$100,000 to the charity
- Each daughter saves \$33,000 in income tax





Questions

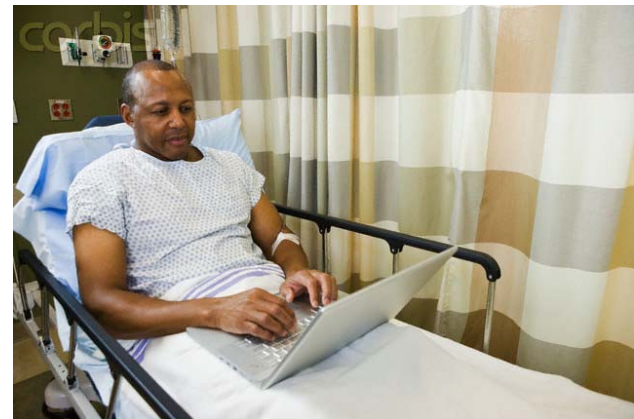
- Would you be willing to suggest this strategy to certain donors?
- Would you mention it in your planned giving literature?
- If the daughters have assured their father that they will fulfill his wishes, would you list the gift as an expectancy?
- Would you include Fred in your legacy society?





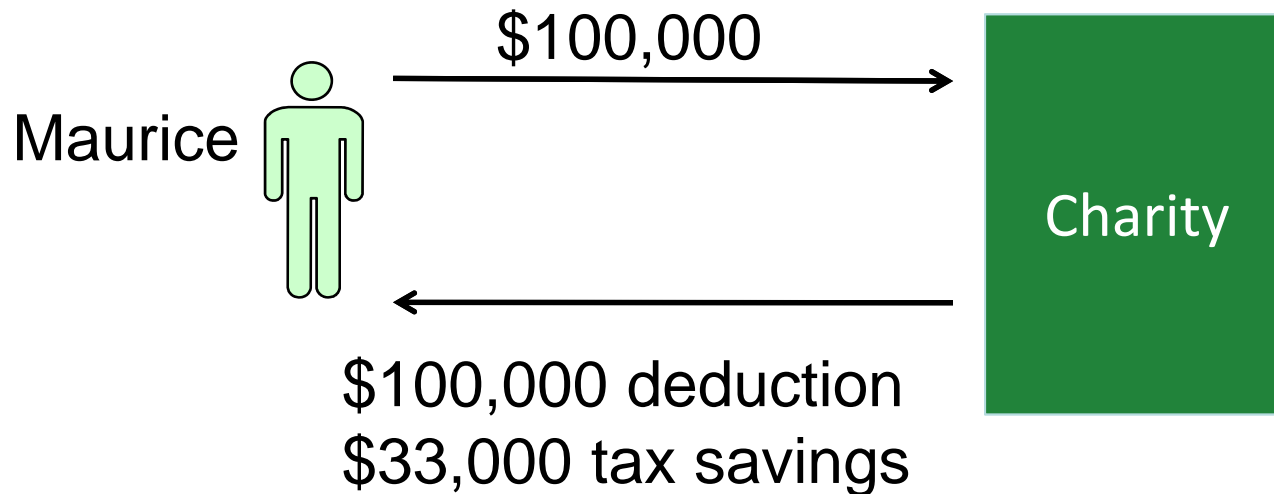
Example of Maurice

- Maurice's will includes a \$100,000 bequest to an arts organization
- His estate is less than \$5,340,000 and he lives in a state without a state estate tax
- How can he realize tax savings?





Solution for Maurice



Maurice, having made an outright gift, removes the bequest from his will.



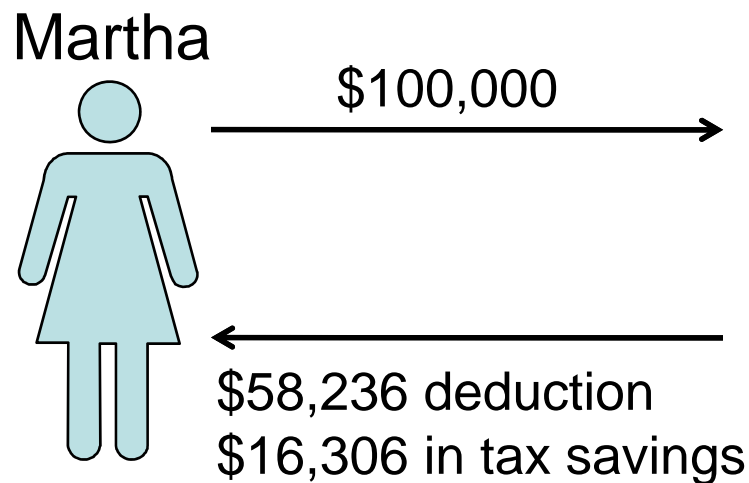
Example of Martha

- Martha's will contains a provision leaving 10% of her estate to an environmental charity
- Like Maurice's estate, hers would not be subject to federal or state estate tax
- How can she realize current tax savings without jeopardizing her personal security?





Solution for Martha



Environmental charity for a flexible deferred gift annuity

Payments

If and when Martha elects them, beginning anytime 2015-2035

Martha, having established a gift annuity, removes the bequest from her will.



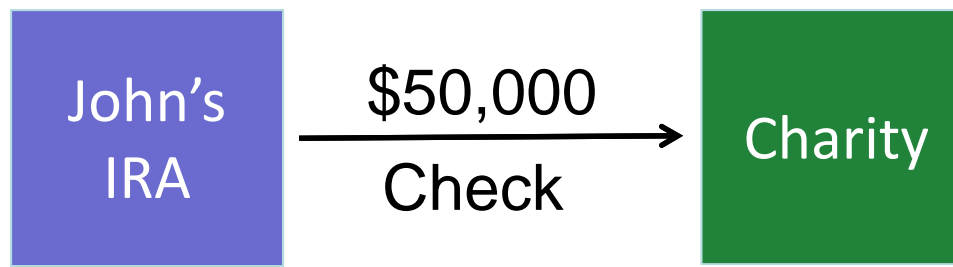
Affect on Charities of Maurice's and Martha's Gifts

How would the charities be affected by the acceleration of Maurice's and Martha's Gifts?

- Effect on Maurice's charity
- Effect of Martha's charity
- Would you mention these options to Maurice and Martha, or leave well enough alone?



Example of John



Delivery Date: July 31, 2014

John, who ordered the transfer, mistakenly thought the Charitable IRA Rollover legislation had already been extended.

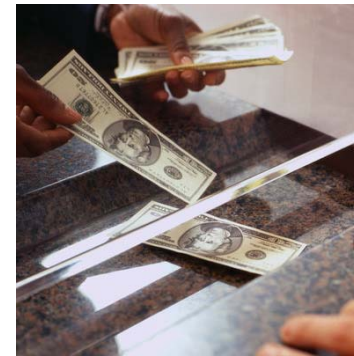


Possible Charity Actions

Returns the check. John has check reissued if legislation is enacted.



Cash the check, use the proceeds for designated charitable purposes.

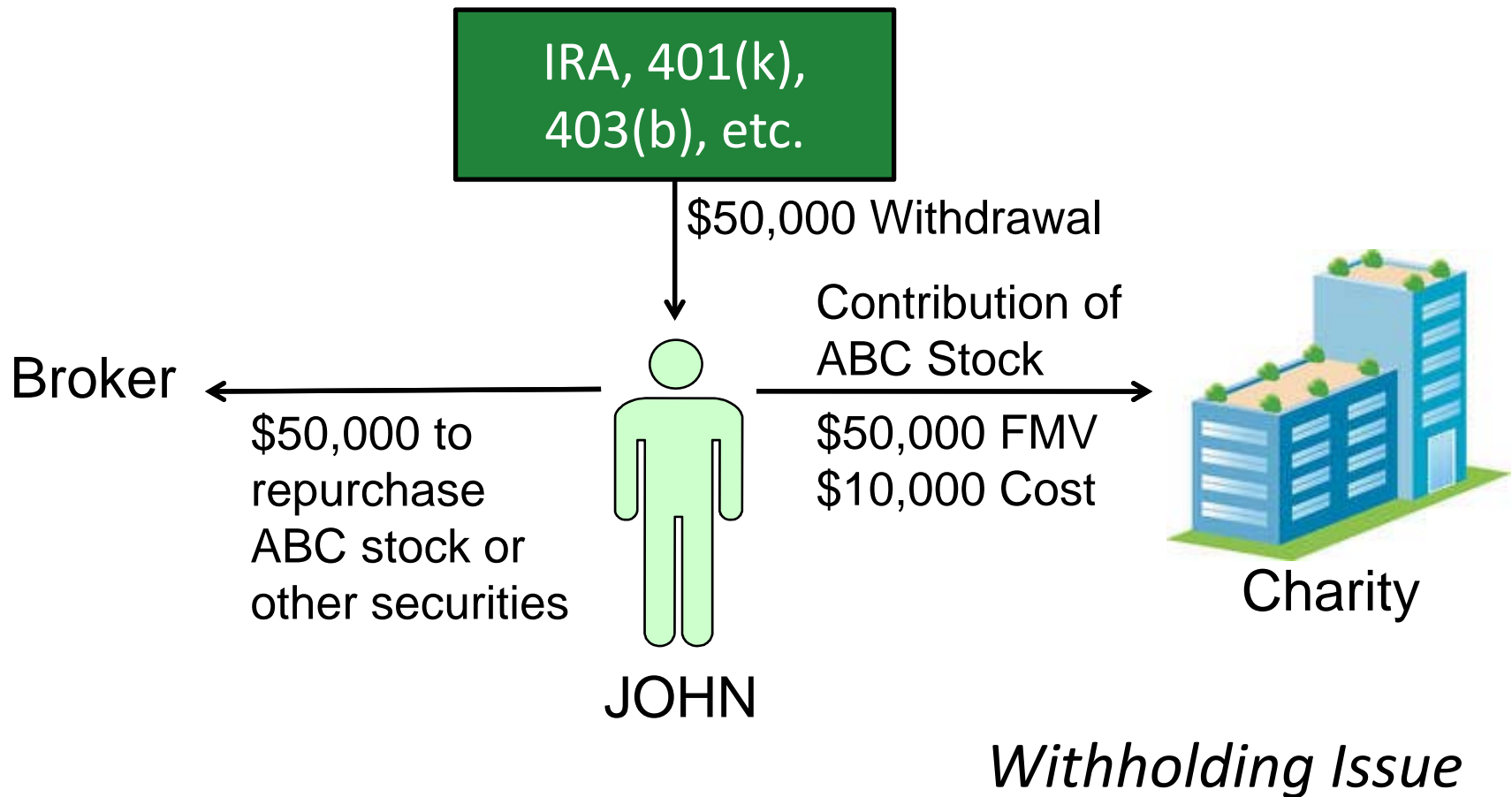


Two Possibilities

- Legislation enacted, retroactive to January 1
- Legislation not enacted, or enacted but not retroactive



Possible Better Alternative



Withholding Issue



Example of Marie

Marie wants:

- To retire fully at age 70
- To reduce working hours at 62
- To increase income between 62-70, when she will start withdrawals from retirement fund
- To receive a fixed amount of payments
- To make a charitable gift



Marie, age 60

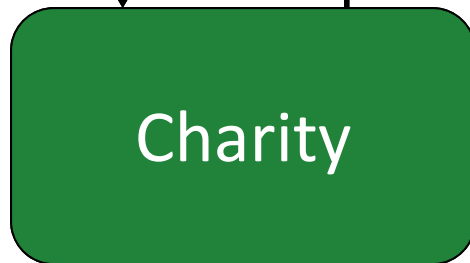


Solution for Marie



Stock
\$200,000

Deduction
\$90,890



\$0

\$24,974

\$0

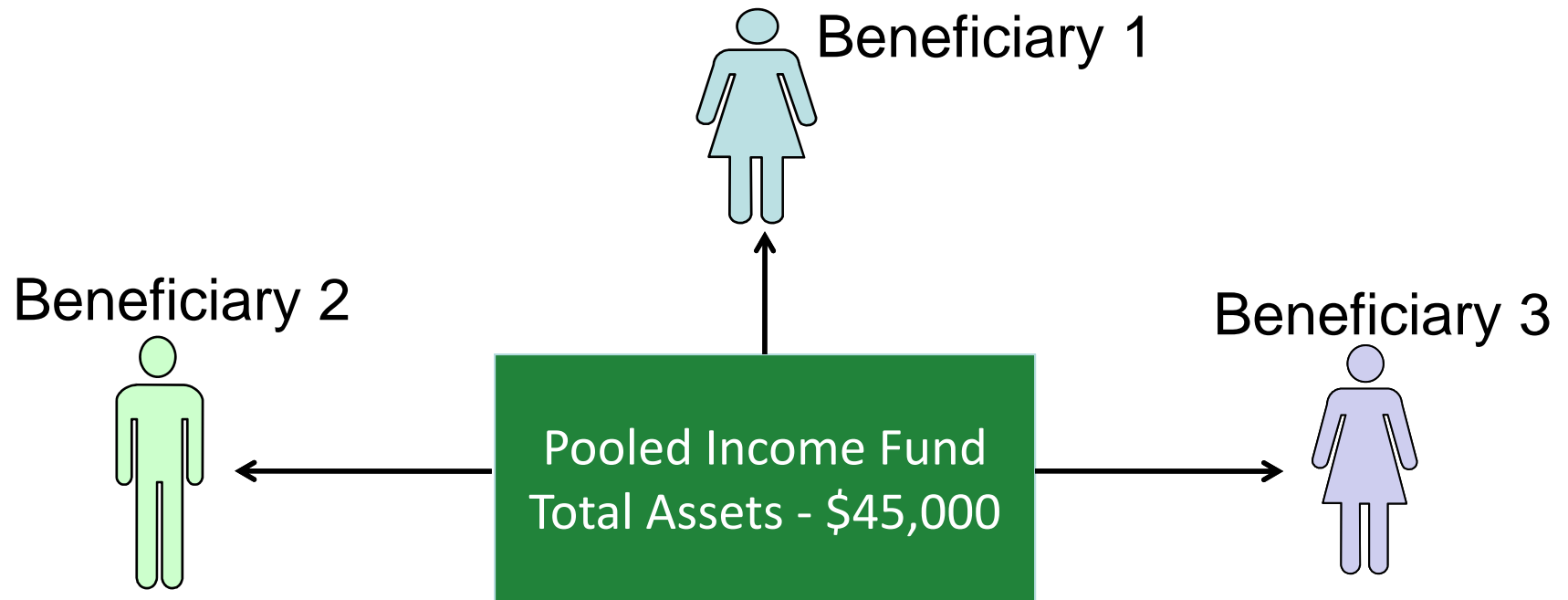
Age
62

Age
70

Death



Inactive Pooled Income Fund



What should you do with this nuisance fund?



Reasons to Revive an Existing PIF or start a New One

- Large deductions.
- Payments may increase over time.
- Payments taxed at a low rate if they derive from dividends.
- Younger donors attracted to it.
- Charity not at financial risk.
- No costly state regulation requirements as for gift annuities.
- Can have a special-purpose fund.



Comparison: Pooled Income Fund Gift and a Gift Annuity

- Donor/Beneficiary, Age 64
- Contribution of stock \$100,000 FMV, 20,000 cost.

	Gift Annuity	PIF
Annual payment	\$4,600	\$3,500
After Tax Payments	3,821	2,884
Charitable Deduction	34,203	77,933
Tax savings(28% rate)	9,577	21,821
Investment of tax savings(5% net)	478	1,091
Total benefit	4,299	3,975
Payments may increase	NO	YES



Example of Sam and Rachel

Estate value: \$18 million

Two Children: Son, 41 and a daughter, 39

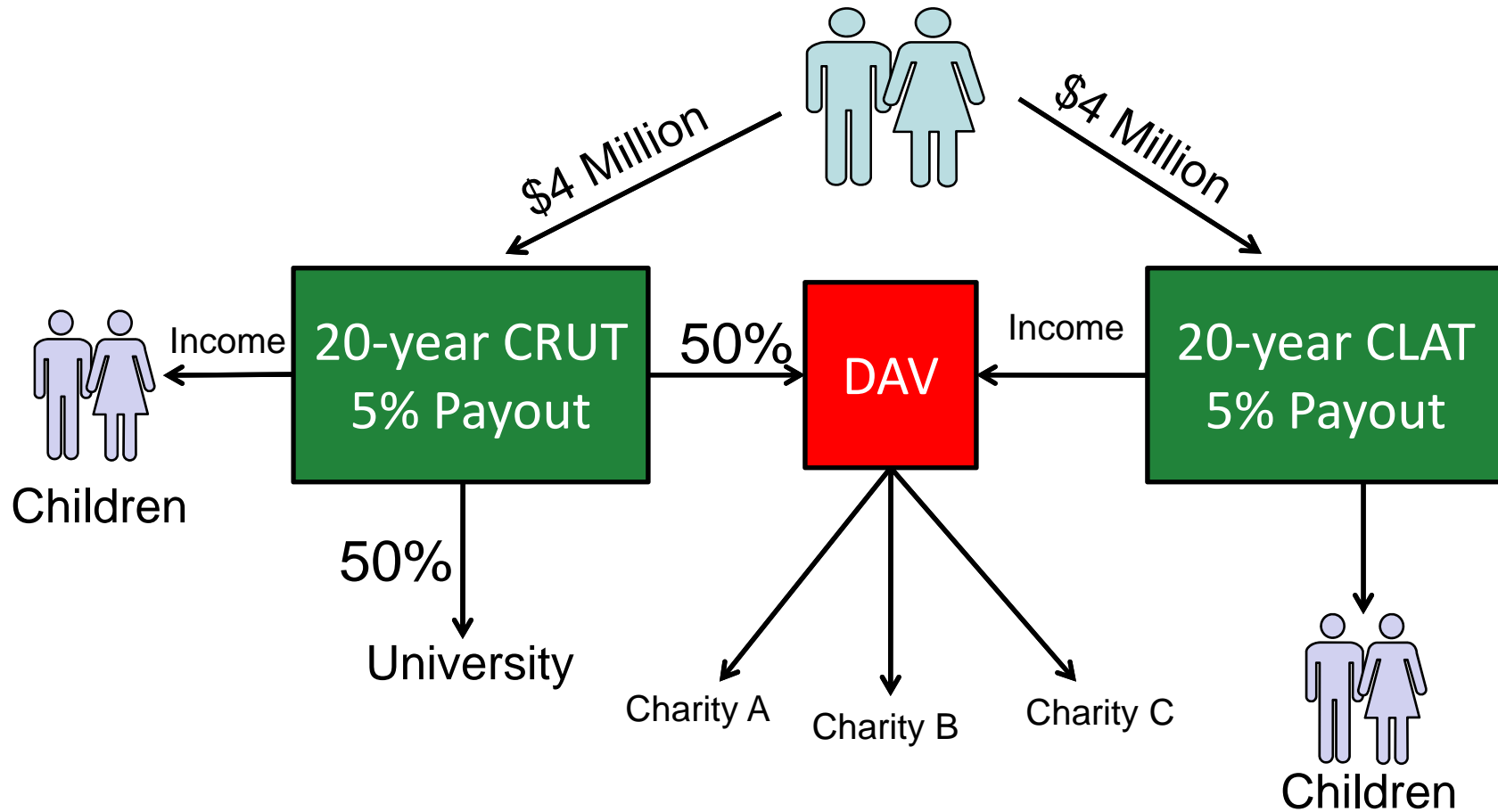
Four grandchildren

Objectives

- Provide for children now and in the future.
- Fund the grandchildren's education
- Convey a sense of community responsibility to their heirs.



Solution for Sam and Rachel





Summary of Sam and Rachel's Plan

- Children receive income for 20 years and then a lump sum
- Charity receives income for 20 years and then a lump sum
- Sam and Rachel save \$640,000 in income tax and leverage their gift/estate tax exemption
- The family members learn community responsibilities by jointly deciding on grants



Questions and Answers

- To ask a question:
 - Press **7#** on your telephone keypad or send a chat message.
- To remove yourself from the queue at anytime:
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Example of Margaret

Move From



Move to



And receive \$ every month for retirement home fee



Solutions for Margaret

- Transfer residence to a CRT that pays her life income

- OR -

- Transfer residence to a gift annuity that makes payments for life (acceptable to charity because buyer is waiting in the wings)
- Margaret chooses the gift annuity



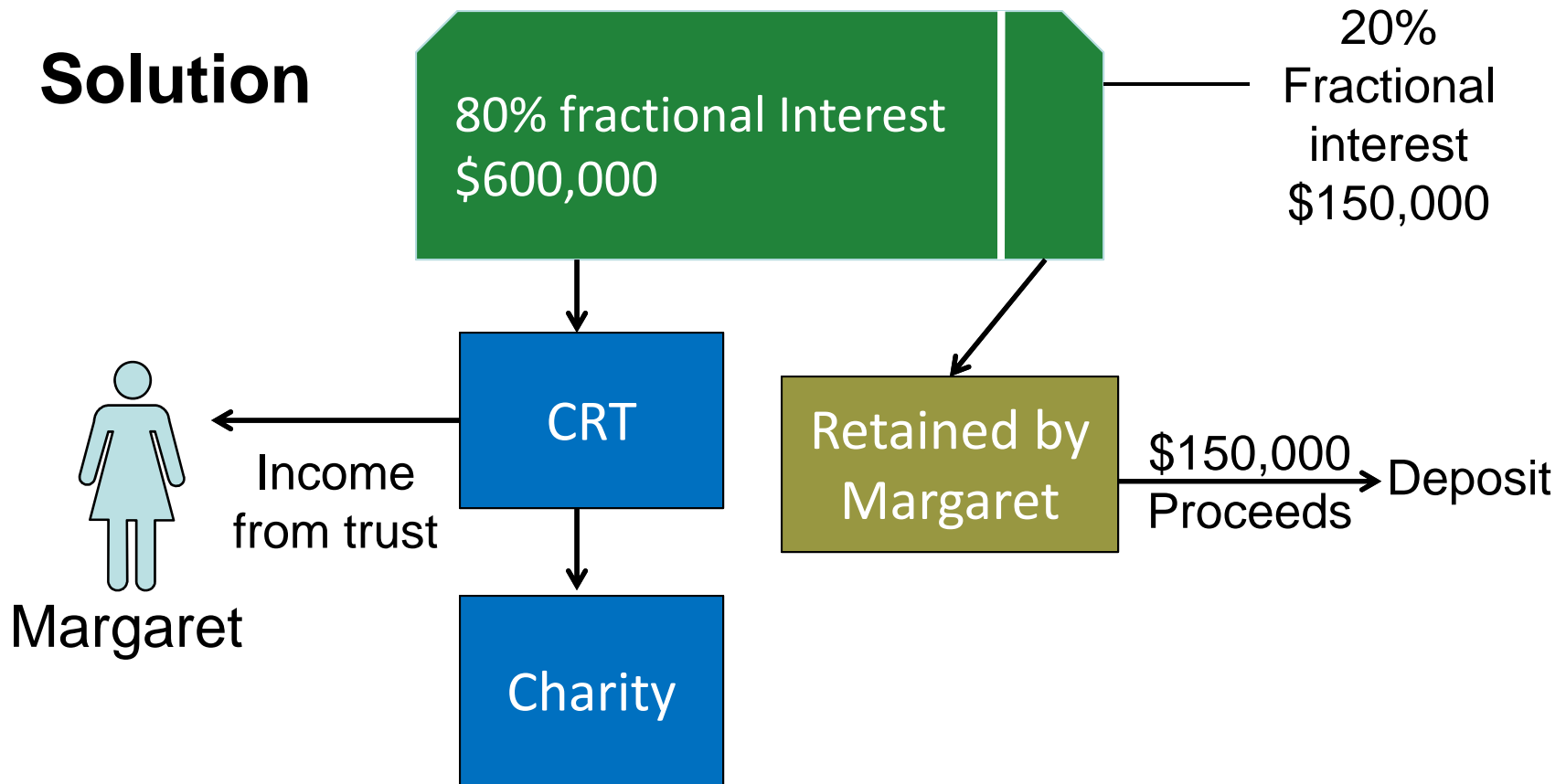
How Can She Claim Her \$250,000 Capital Gain Tax Exemption?

- Limit assignment to charity, in which case \$26,155 of gain ratably reported each year. Then each year apply \$26,155 of \$250,000 exemption until it is used up.
- Do not limit assignment, in which case she has \$290,218 of gain in the year of the gift. She reduces this by \$250,000, leaving \$40,218 of taxable gain. Payments then are mostly tax-free.



Margaret Needs \$150,000 for Deposit on Retirement Unit

Solution





Capital Gain Implications

- Sale of retained 20% fractional interest causes recognition of \$110,000 of capital gain
- The \$110,000 is offset by \$110,000 of exemption
- Remaining \$140,000 of exemption reduces amount of gain distributable under the four-tier system



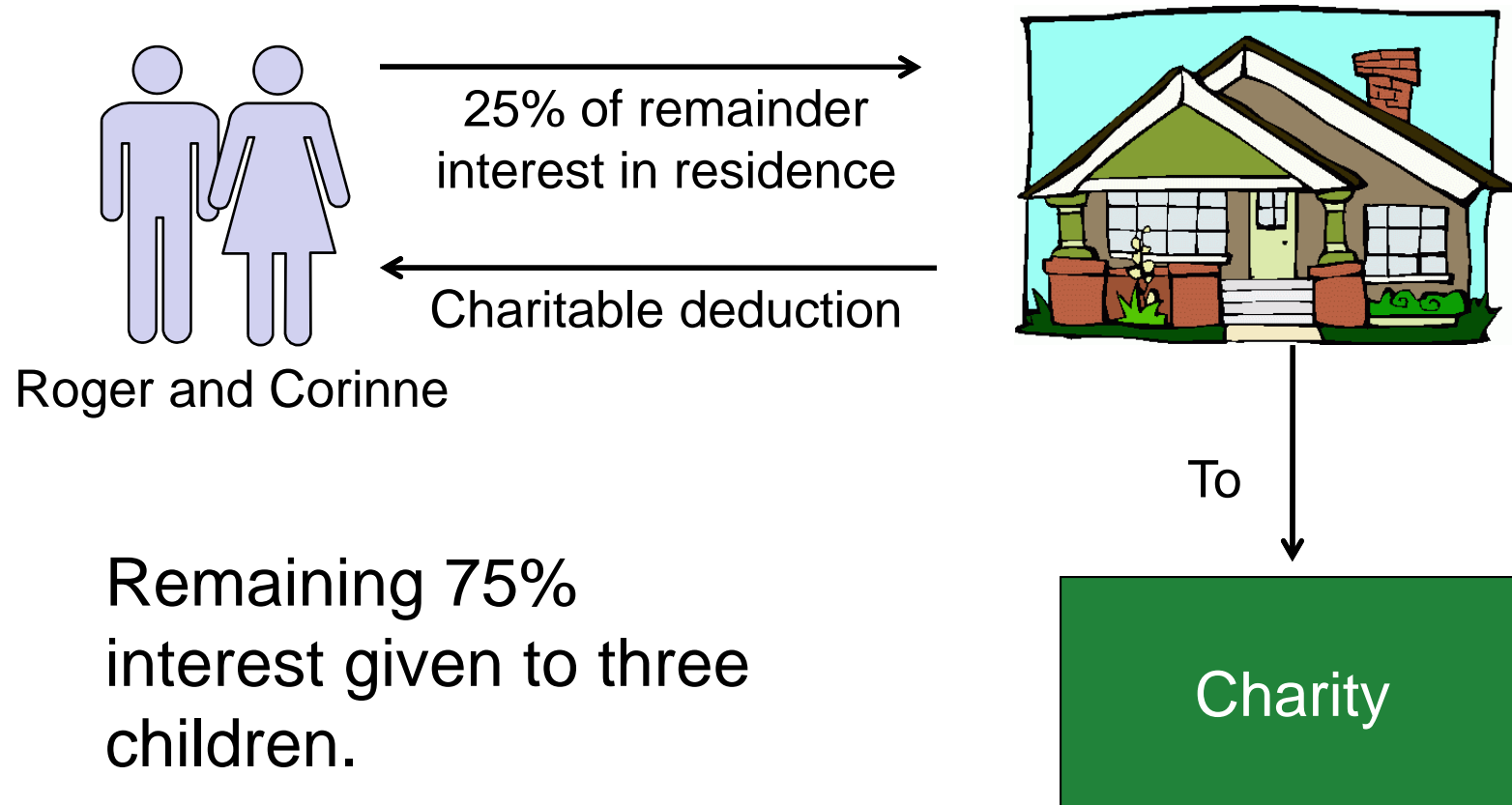
Case of Roger and Corrine

- Roger and Corinne are asked for a \$1 million campaign gift.
- They live in a \$4 million waterfront home.
- They want to retain their investments.
- They intend to leave their residence to their three children.





Solution for Roger and Corinne



Remaining 75%
interest given to three
children.



Betty's Dilemma

Wants to leave a \$200,000 bequest to a hospital foundation to establish endowment named for deceased husband and younger son . . .

BUT

her older son objects.





Betty's Proposal

- Betty proposes to you, the development officer, that she make an outright gift of \$200,000 and not tell her son.
- Son meanwhile calls you and orders you to back off and threatens legal action.



Suggestion for Involving Children in Parents' Philanthropic Plans

- Encourage a family discussion
- Never exploit alienation
- Propose plans where children also benefit
- When appropriate, offer to meet with donors together with children
- Include children in recognition events



Example of Lois



- Lois, age 75, has good cash flow
- Wants to fund scholarship now
- Can afford to do so, but is concerned that in the future she might need all the income from her investments



Possible Actions

- Annual gifts of \$20,000 for scholarship plus \$500,000 bequest provision to endow them
- Current gift of \$450,000 to establish endowment now
- Create a “Virtual Endowment”





What is a Virtual Endowment?

- Contributes \$450,000 gift annuity
- Receives deduction of \$205,974
- Authorizes University to retain annual payments of \$26,100
- Portion of \$26,100 used for scholarships, balance accumulated for endowment
- Endowed scholarship fund with gift annuity residuum plus accumulations
- Lois can direct annuity payments to herself if she ever needs them



Interest-Free Loan to Charity

- Your charity is raising money for a new building
- Prime prospect for naming gift is asked for \$4,000,000
- He says he would be unable to use the charitable deduction until 6-7 years from now





Solution

- Prospect makes a \$4,000,000 interest-free demand loan to your charity
- Deductions allowed as loan is forgiven
- Donor has imputed interest, but it is not large given currently-low applicable rate



Case of Jim

Jim, principal stockholder of an S corporation that manufactures water-purification devices, says he can make a \$500,000 campaign contribution only by giving S stock or the proceeds from its sale to another shareholder.



Which is better?



Option 1 – Give S Stock

Deduction (Appraiser discounts share value by 20%)	\$400,000
Tax savings from deduction (35% rate)	140,000
Tax on gain	0
Appraisal Fee	-15,000
Net Benefit	125,000
Net gift to charity (after charity pays tax on gain)	\$336,800

Deduction limitation: 30% of AGI



Option 2 – Sell Stock, Give Proceeds

Deduction	\$500,000
Tax savings from deduction	175,000
Tax on capital gain (18.8% x \$480,000)	-90,240
Net benefit	84,760
Net Gift to charity	\$500,000

Deduction limitation: 50% of AGI



“The world is but a canvas to the imagination”

- Henry David Thoreau

Most of the planned giving vehicles are not new, but they can be adapted and combined in novel ways to solve donor problems.



Questions and Answers

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Still Have a Question?

Contact: Frank Minton
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