# Problem Solving with Planned Gifts

Date: July 31, 2014

Time: 1:00 – 2:30 Eastern Time

Presenter: Frank Minton
Principal
Frank Minton Consulting, LLC

PG Calc
Invested in your mission



## 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.

PG Calc | Invested in your mission

## 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?

 Problem Solving with Planned Gifts 9

PG Calc | Invested in your mission

## 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

 Problem Solving with Planned Gifts 10

PG Calc | Invested in your mission

## 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?

 Problem Solving with Planned Gifts 11

PG Calc | Invested in your mission

## 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?

© 2014 Frank Minton    Problem Solving with Planned Gifts    12

PG Calc | Invested in your mission

## Solution for Maurice

Maurice $\xrightarrow{\$100,000}$ Charity

Charity $\rightarrow$ Maurice: $100,000 deduction, $33,000 tax savings

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

© 2014 Frank Minton    Problem Solving with Planned Gifts    13

PG Calc | Invested in your mission

## 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 jeopard-izing her personal security?

© 2014 Frank Minton    Problem Solving with Planned Gifts    14

## Solution for Martha

Martha

$100,000 → Environmental charity for a flexible deferred gift annuity

← $58,236 deduction
$16,306 in tax savings

**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

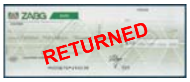
John's IRA → $50,000 Check → Charity

**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.

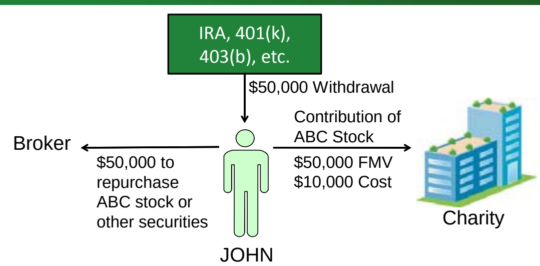
**Two Possibilities**

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





## Possible Better Alternative




*Withholding Issue*





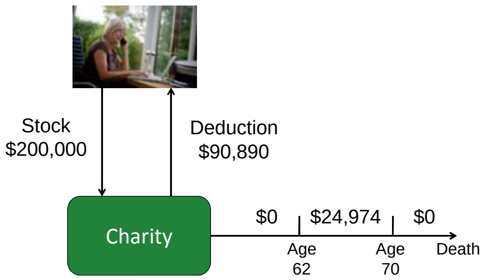
## Example of Marie

**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

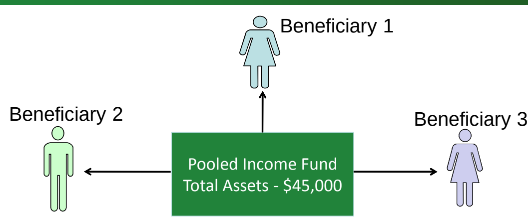
## Solution for Marie








## 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

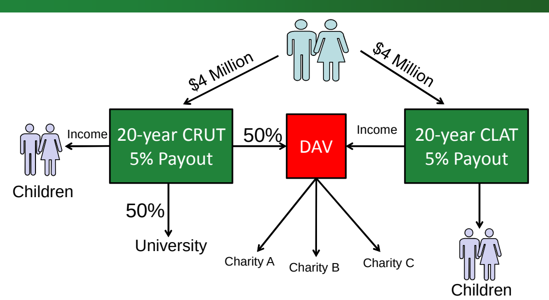
Objectives

- 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:
  - Press **7#** again on your telephone keypad.





## 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?

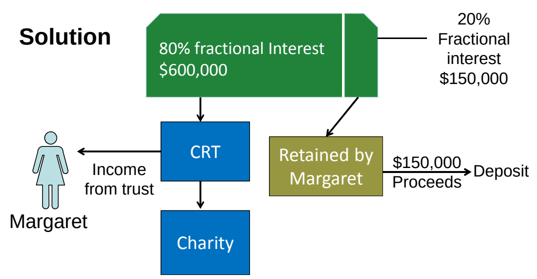
- Limit assignment to charity, in which case $26,155 of gain ratably reported each year. Then each year apply $26,155 of $250,000 exemption until it is used up.
- Do not limit assignment, in which case she has $290,218 of gain in the year of the gift. She reduces this by $250,000, leaving $40,218 of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





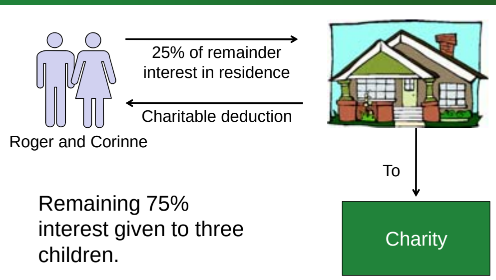
## Case of Roger and Corrine

- 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



PG Calc | Invested in your mission

## 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.



PG Calc | Invested in your mission

## 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.



PG Calc | Invested in your mission

## 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.

PG Calc | Invested in your mission

## 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:
  - Press **7#** again on your telephone keypad.

PG Calc | Invested in your mission

## Still Have a Question?

**Contact:** Frank Minton
Frank Minton Advisors, LLC

**E-mail:** FDMinton@gmail.com