# Fundamentals of Planned Giving
# Part 2: Basic Planned Giving Methods

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|---|---|
| Date: | July 23, 2014 |
| Time: | 1:00 – 2:30 Eastern Time |
| Presenter: | Craig C. Wruck<br>Vice President, Advancement<br>Humboldt State University |

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# Agenda

- Charitable Bequests
- Qualified Retirement Plan Assets
- Life Insurance
- Bargain Sale
- “Family Foundations”

 

# Charitable Bequests

- Testamentary gifts – transfer made upon death, revocable during lifetime
- Charitable bequests – specific, contingent, remainder
- Considerations regarding restrictions
- The “probate” process

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# Questions?

- To ask a question:
  - Send a chat.

# Qualified Retirement Plans

- "Custody" account – accepts contributions of pre-tax income, holds & invests tax-deferred
- Withdrawals are taxed as ordinary income
- Purpose: provide retirement income – not to encourage savings or build estate value
  - Before 50½: 10% early withdrawal penalty
  - After 70½: Minimum required distributions

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# Qualified Retirement Plan Contributions at Death

- $200,000 estate: IRA and CD, each worth $100,000
- Charitable bequest: $100,000

| | Charitable Bequest | IRA to Charity |
|---|---|---|
| Combined value of estate | $200,000 | $200,000 |
| IRA transferred to charity | n/a | - $100,000 |
| Net estate | $200,000 | $100,000 |
| Income tax on IRA (39.6%) | - 39,600 | -0- |
| Charitable bequest | - 100,000 | n/a |
| Remainder to heir | $60,400 | $100,000 |

# Qualified Retirement Plan Contributions at Death

Notes:

- Expedited payment to charity
- Distribution must be directly from plan, not provision in Will
- Consider coordinating provision in Will
- Careful planning for married couples

# Gifts During Lifetime

Simply withdraw money from qualified plan, then contribute cash to charity

- Assuming over 59½, should be a wash:
  - Withdrawal creates taxable income
  - Contribution creates offsetting deduction
- Complexities of standby withholding, timing, AGI limits, tax reporting

# “IRA Charitable Rollover”

Transfer up to $100,000 from IRA to charity with no income tax on withdrawal

- Donor must be age 70½ or older
- Outright contribution (no life income plans)
- Transfer must be from the IRA administrator directly to the charity
- Expired at end of 2013, legislation pending

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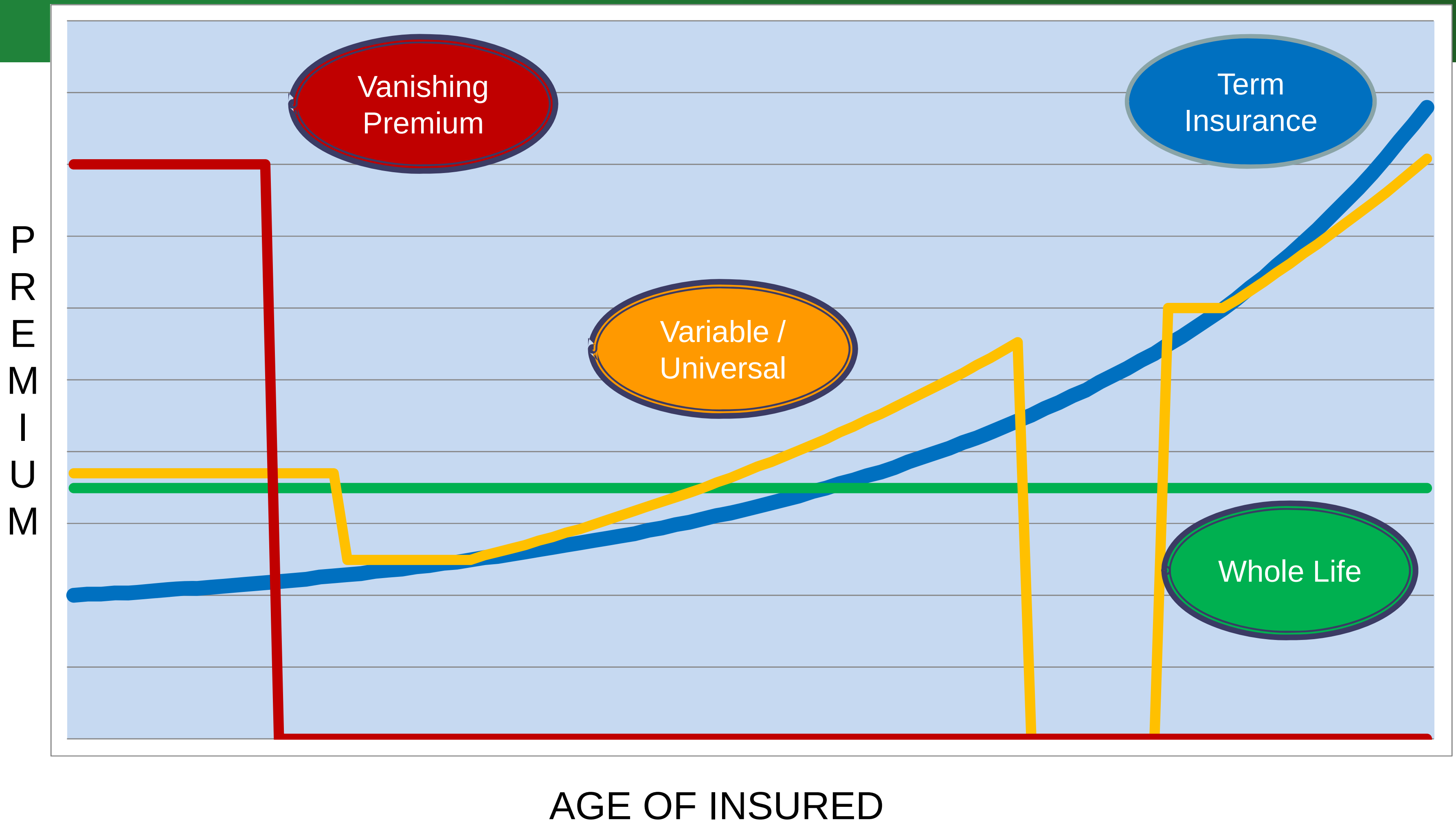
# Life Insurance Policy

| Insurer | Owner | Insured | Beneficiary |
|---|---|---|---|
| Promises to pay an amount of money (the death benefit) upon the death of the insured | Buys and (usually) pays for the policy; has right to change beneficiary and to give away ownership | The one upon whose death the insurer will pay the death benefit | The one to whom the death benefit will be paid |

# Life Insurance Premiums



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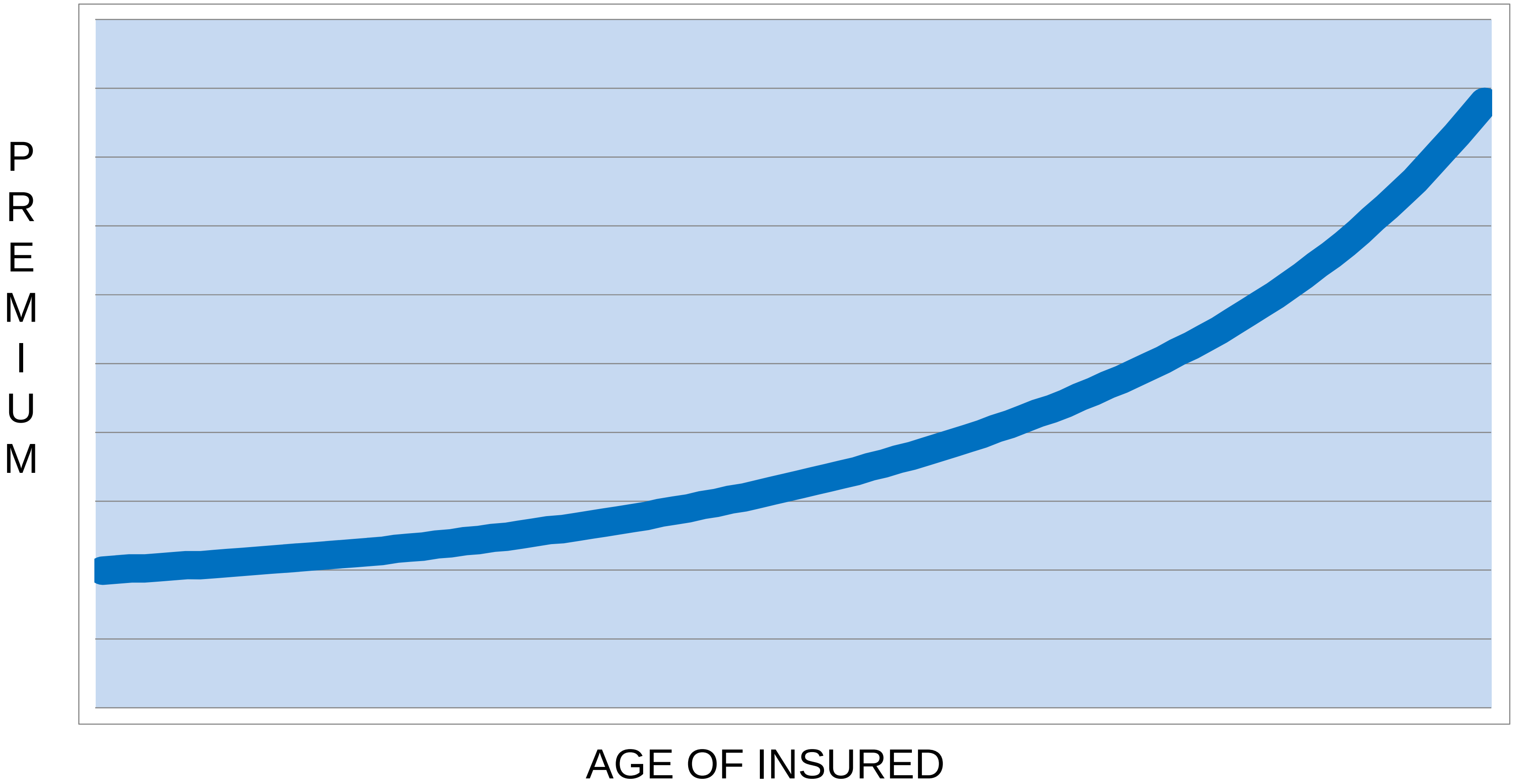
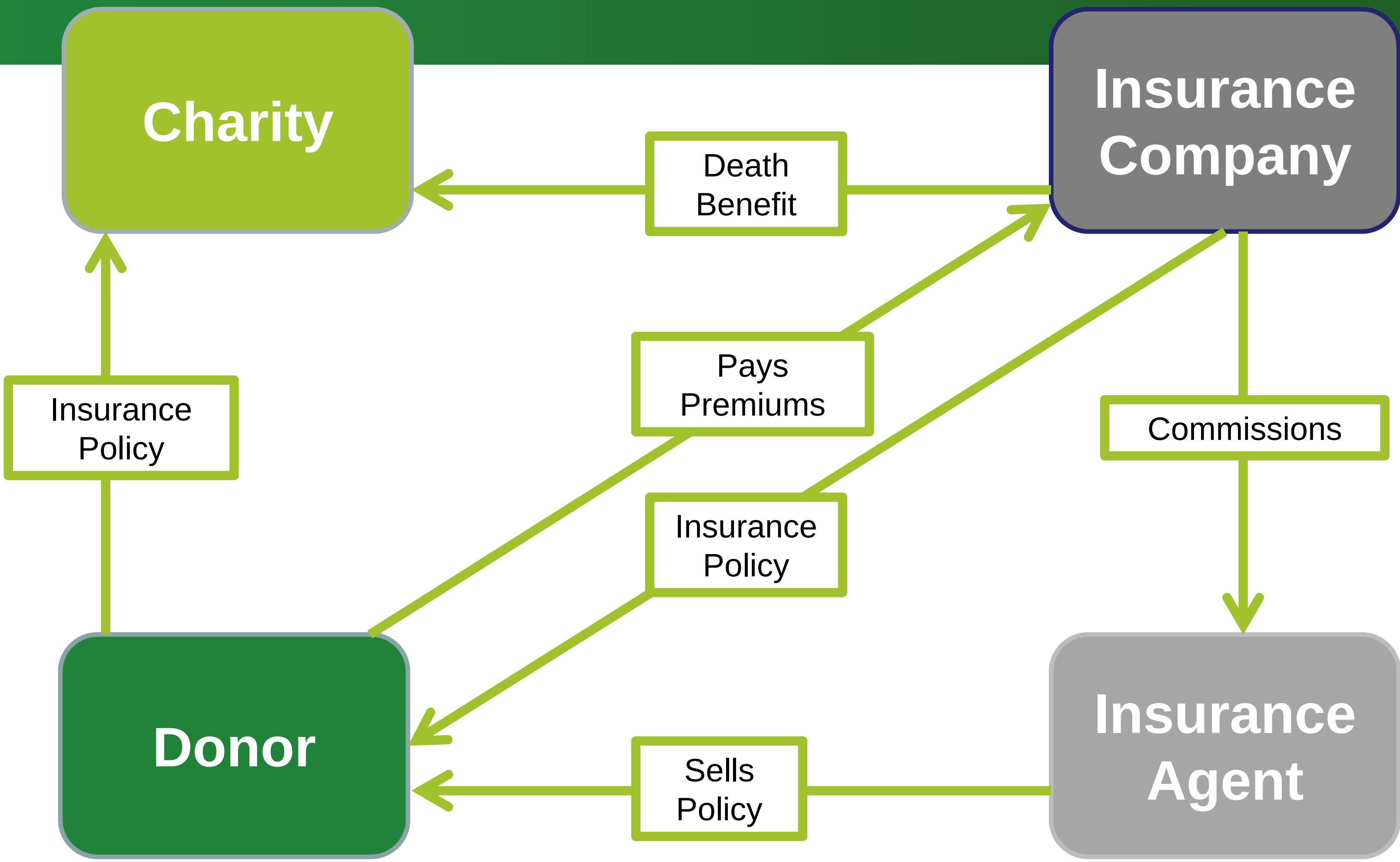


# Life Insurance – Outright Gift



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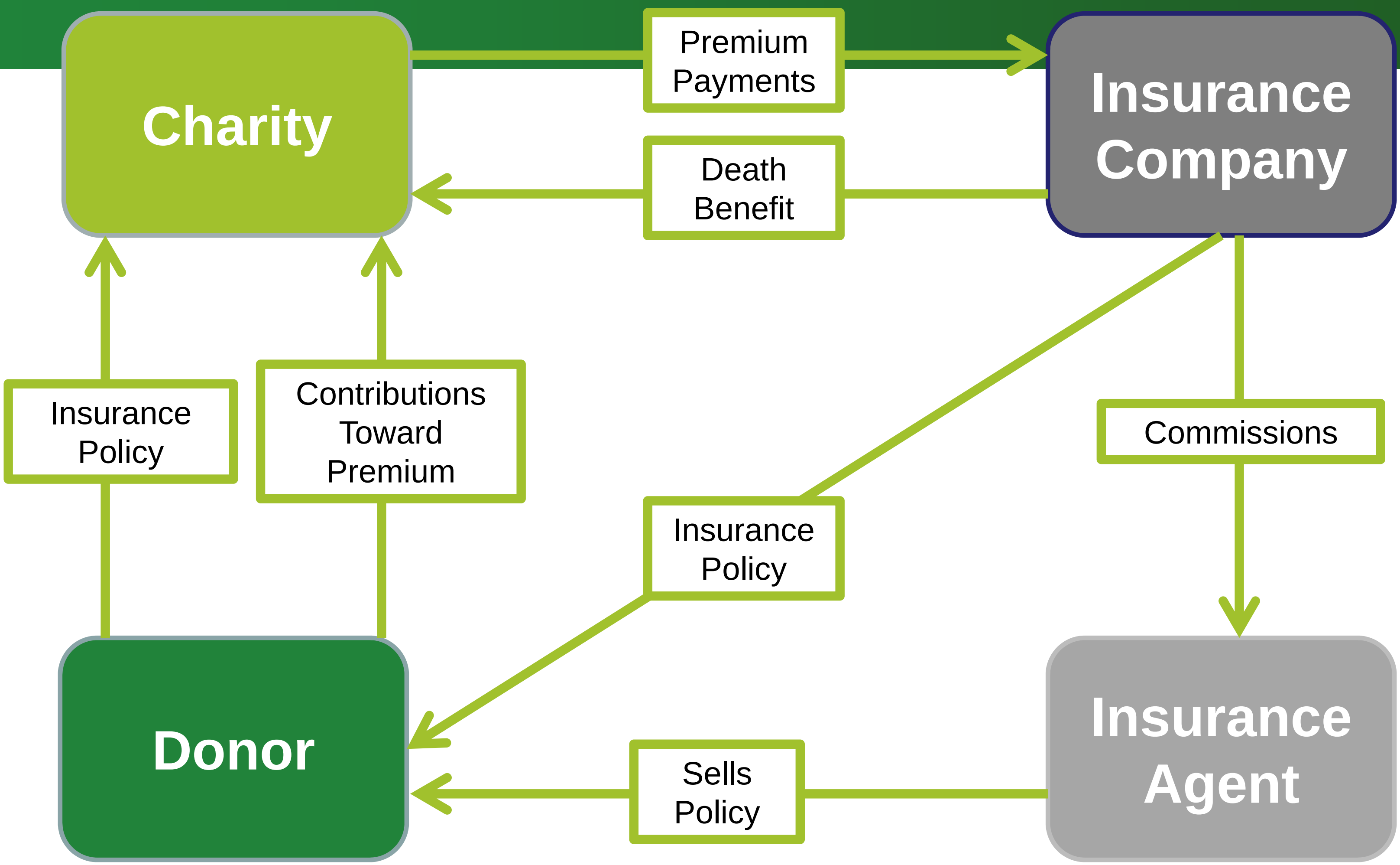

# Contributions of Life Insurance

- Charity must be named beneficiary in order to receive death benefit
- Income tax deductions if donor transfers ownership to charity
  - Value of policy at time of gift
  - Future premium payments

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# Other Considerations

- Charity is not obligated to make premium payments – despite donor's expectations
- Outstanding policy loans, conditions may reduce value of death benefit
- Policies are valuable assets, should be periodically reviewed and evaluated

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# Bargain Sale

Donor sells property to charity for less than full fair market value

- Charitable deduction for difference between fair market value and sales price
- Donor will be liable for capital gains tax on portion of capital gain – can't give the gain only

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# Bargain Sale Example

- FMV = $50,000, cost basis = $20,000
- Donor sells to charity for $10,000
  - Charitable deduction = $40,000
- Donor pays capital gains tax on $6,000
  - Capital gain = $30,000
  - (30,000/50,000) x 10,000 = 6,000

# Family Foundations

| | Donor advised fund | Private foundation |
|---|---|---|
| Origin of tax exempt status | Fund account of a public charity | Separate entity (either trust or corporation) |
| AGI limit on charitable deduction | 50% cash<br>30% appreciated prop. | 30% cash<br>20% appreciated prop. |
| Donor control of distributions | Right to recommend distributions by public charity | Controlled by entity limited by private foundation rules |
| Minimum distribution | No requirement | Minimum 5% |
| Donor privacy | Can be anonymous | Public disclosure |
| Administration | Provided by sponsoring public charity | Entity provides accounting, files tax returns, etc. |

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# Still Have a Question?

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