Fundamentals of Planned Giving
Part 2: Basic Planned Giving Methods

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

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

Pages 1-3

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Questions?

- To ask a question:
  - Send a chat.

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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

Pages 3-4

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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

Page 5

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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

Page 5

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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

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"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

Pages 5-6

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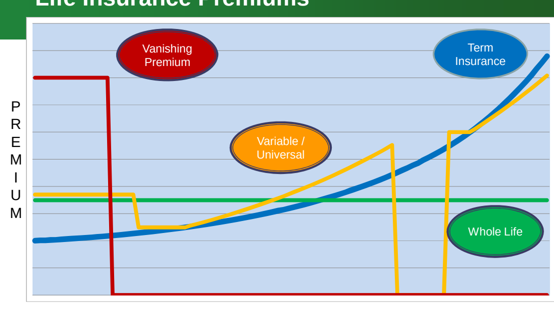
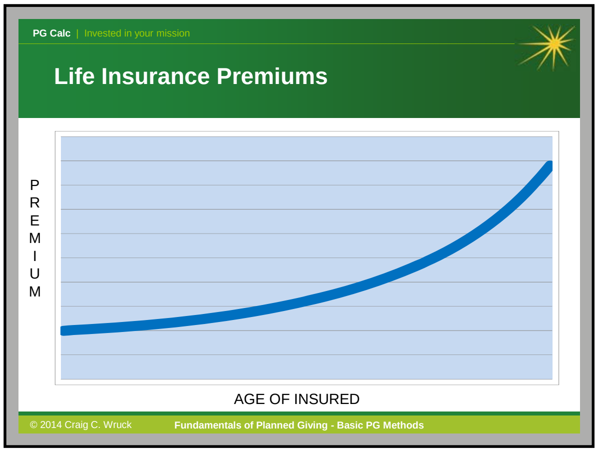
Life Insurance Policy

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 Premiums
PREMIUM
AGE OF INSURED
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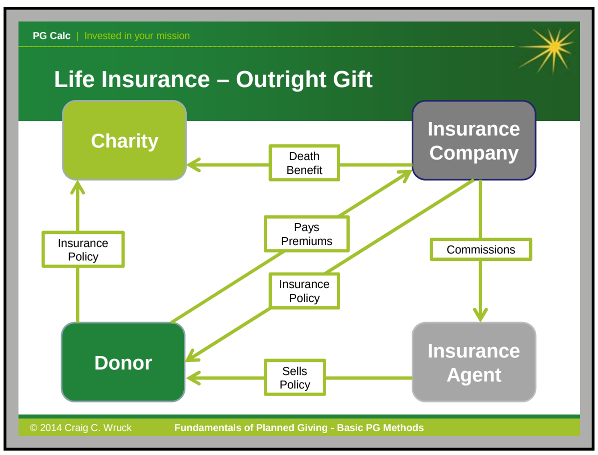
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Life Insurance – Outright Gift
Charity
Insurance Company
Death Benefit
Pays Premiums
Insurance Policy
Commissions
Insurance Policy
Donor
Sells Policy
Insurance Agent
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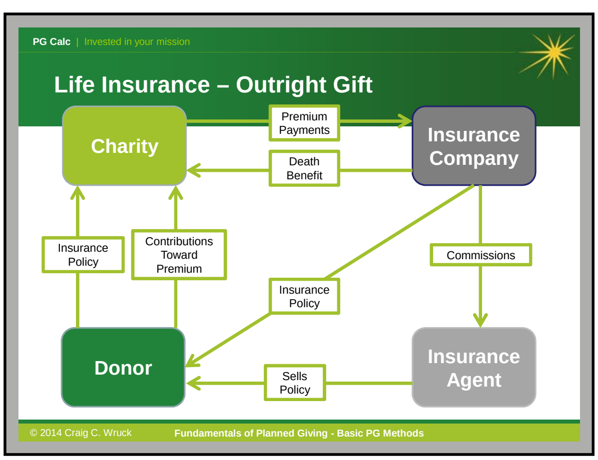
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Life Insurance – Outright Gift
Charity
Premium Payments
Death Benefit
Insurance Company
Insurance Policy
Contributions Toward Premium
Commissions
Insurance Policy
Donor
Sells Policy
Insurance Agent
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Contributions 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

Pages 8-9

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

Pages 8-9

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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

Pages 10-11

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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

Page 10

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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 30% appreciated prop.	30% cash 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.

Pages 11-12

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Still Have a Question?

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