



Fundamentals of Planned Giving

Part 4: Advanced Planned Giving Methods



Date: August 6, 2014
Time: 1:00 – 2:30 Eastern Time
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Agenda

- Life income gifts
 - Charitable gift annuity
 - Charitable remainder trust
- Charitable lead trust
- Retained life estate



Life Income Gifts

- Donor makes contribution now and receives income in return
 - Fixed or variable amount of income
 - For one or more lifetimes, a term of years, or a combination of the two
 - Income beneficiary can be donor or others
 - Capital gains tax delayed or avoided
 - Made during lifetime or in Will
- **Life income gifts are irrevocable**



Life Income Gifts

- **Charitable gift annuity**
 - Contract in exchange for a contribution that promises fixed payments for life
- **Charitable remainder trust**
 - Separate legal entity holds and manages assets, makes payments to beneficiaries, distributes remainder to charity
 - Annuity trust pays fixed dollar amount
 - Unitrust pays fixed percentage of trust value
- **Pooled income fund**



Charitable Deduction

- Split interest
 - Right to receive payments
 - Right to hold remainder
- Donor retains right to payments, contributes right to receive remainder in the future
- Charitable deduction for calculated present value of the right to hold the remainder
- Older (or fewer) beneficiaries or lower payout yields larger deduction

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Charitable Gift Annuity

- Donor makes a current contribution to charity
- Charity issues contract promising to pay fixed amount annually for life
- Amount of payment is determined at time of gift and cannot change
- Taxation of payments:
 - Ordinary income
 - Tax-free income
 - Capital gain income

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Charitable Gift Annuity funded with:	Cash	Appreciated Securities
Assumptions		
Annuitant Age	72	72
Principal Donated	\$10,000	\$10,000
Cost Basis	\$10,000	\$2,000
Annuity Rate	5.4%	5.4%
Charitable Deduction (CMFR = 2.4%)	\$4,240	\$4,240
Annuity	\$540	\$540
Tax-free Income	\$397	\$79
Capital Gain Income *	\$0	\$318
Ordinary Income	\$143	\$143
* Capital gain of \$4,608 must be reported over 14.5 years, after which the entire annuity becomes ordinary income.		



Charitable Gift Annuity

Notes:

- Contribution of appreciated property:
 - If donor is annuitant, portion of each payment taxed as long-term capital gain over life expectancy
 - If donor is not annuitant, portion of gain is taxable to donor in year of gift
- Deferred payment gift annuity
 - First annuity payment some years in future
 - Payout and deduction will be larger



Deferred Payment Gift Annuity

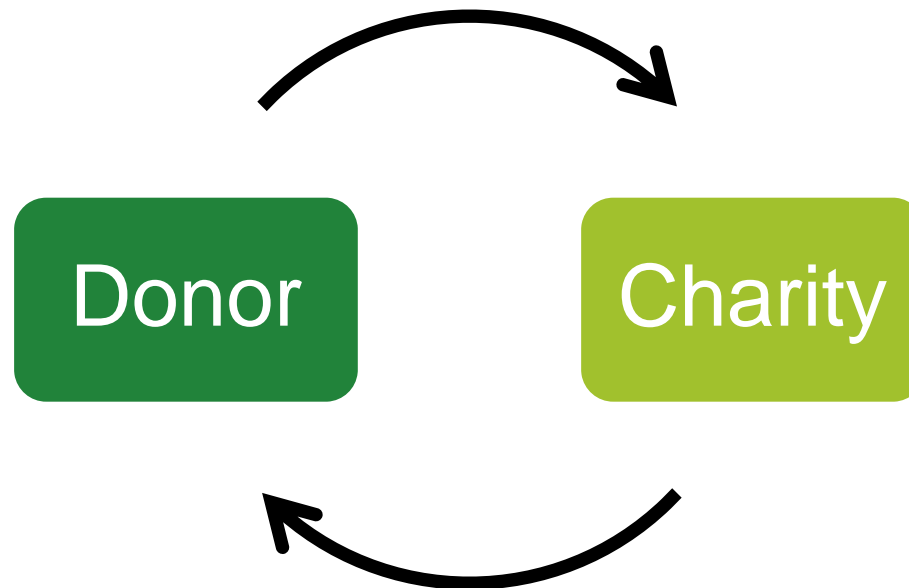
Assumptions

Annuitant Age at Date of Gift	50
Age at Date of First Payment	65
Cash Contributed	\$10,000
Annuity Rate	7.6%
Charitable Deduction (CMFR = 2.4%)	\$3,520
Annuity	\$760
Tax-free Income	\$325
Ordinary Income	\$435
After 19.9 years the entire annuity becomes ordinary income.	



Charitable Gift Annuity

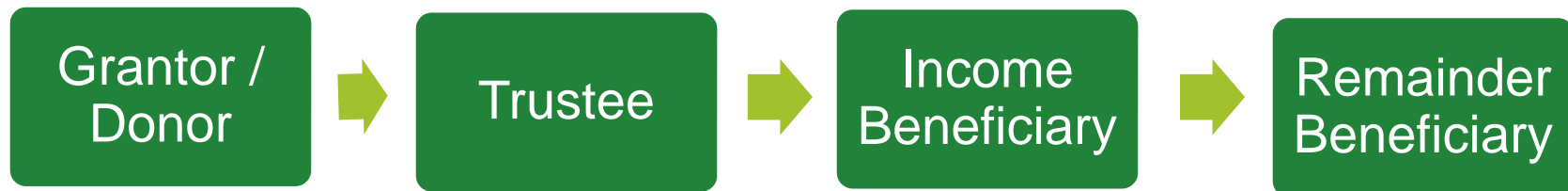
Donor gives money or property to charity



Charity promises to make annual payments to annuitant



Charitable Remainder Trust





Charitable Remainder Trust

- Requirements to qualify as CRT
 - Remainder irrevocably directed charity
 - Not perpetual: lifetimes, term of years, or combination of the two
 - Income beneficiaries must be living at time trust is created
 - Must make payments to beneficiaries at least annually
 - Must be either “annuity trust” or “unitrust”

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Unitrust Types

- Standard (SCRUT, Type I) – principal can be distributed if needed to make payment
- Net income (NICRUT, Type II) – beneficiary receives unitrust % or net income (dividends & interest), whichever is less
- Make-up (NIMCRUT, Type III) – Type II, but can make up past deficiencies with excesses in future years
- Flip Trust – begins as Type II or III, but can become Type I in the future



Taxation of Beneficiary Income

Four tier payout rule:

1. Ordinary income: net income including dividends and interest collected by the trust
2. Capital gain income: gains realized from sales by the trust
3. Tax-exempt: municipal bonds and other tax-exempt income collected by the trust
4. Return of principal

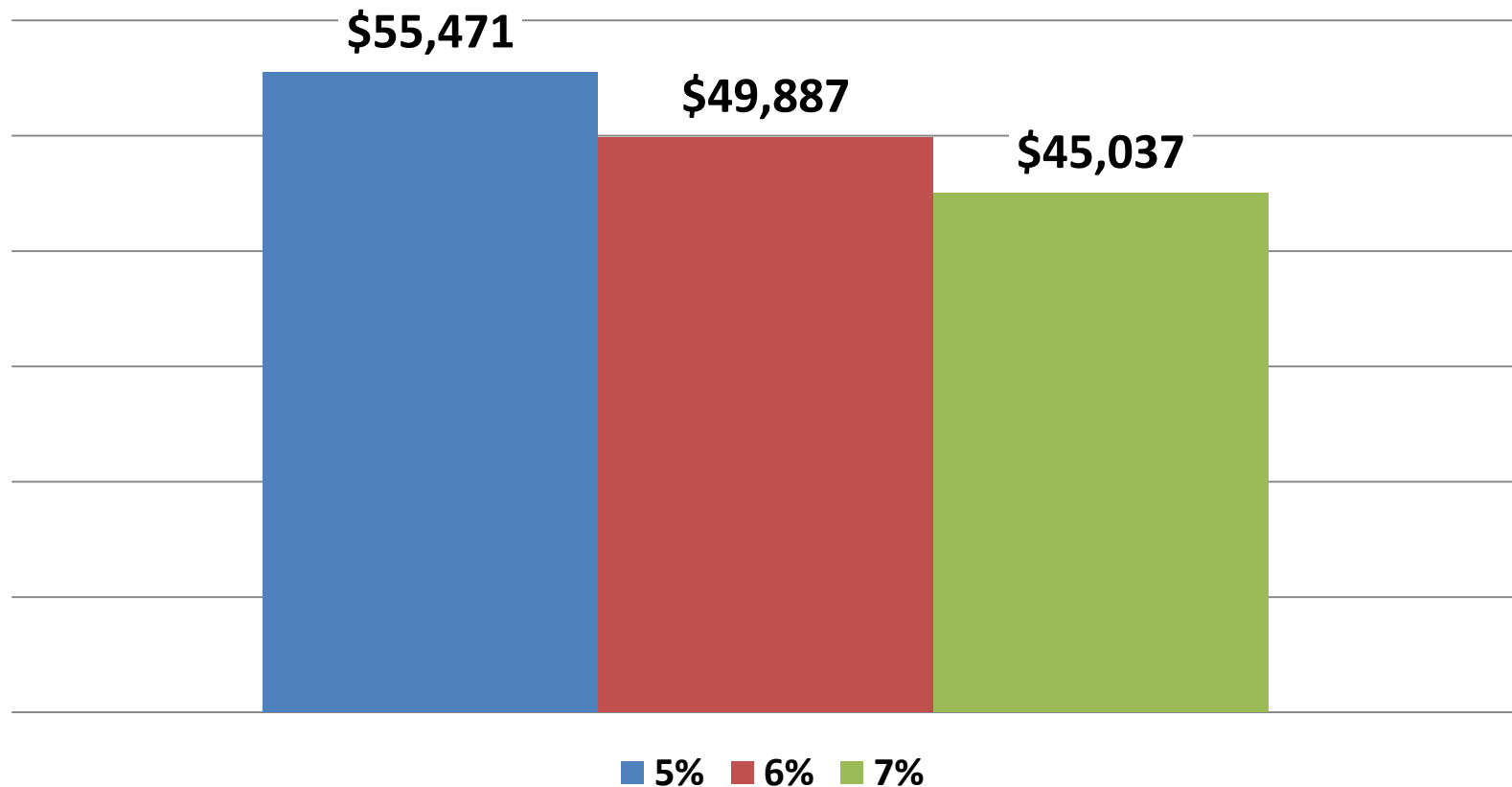


Negotiating the Payout Rate

- Fixed at the time trust is created
- 5% minimum
- At least 10% deduction value
- Lower payout can afford growth
- Payout higher than expected investment return is folly



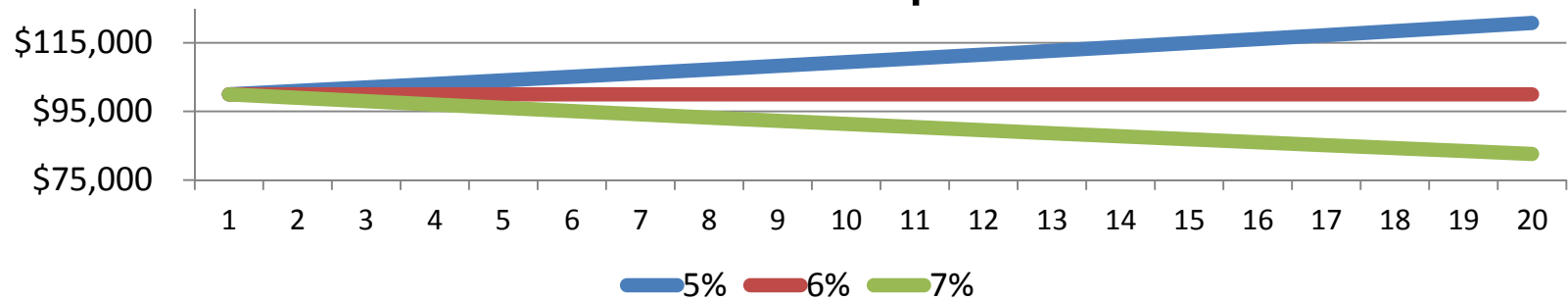
Deduction Value, \$100,000 to 5% CRUT (Age 72, CMFR 2.4%)



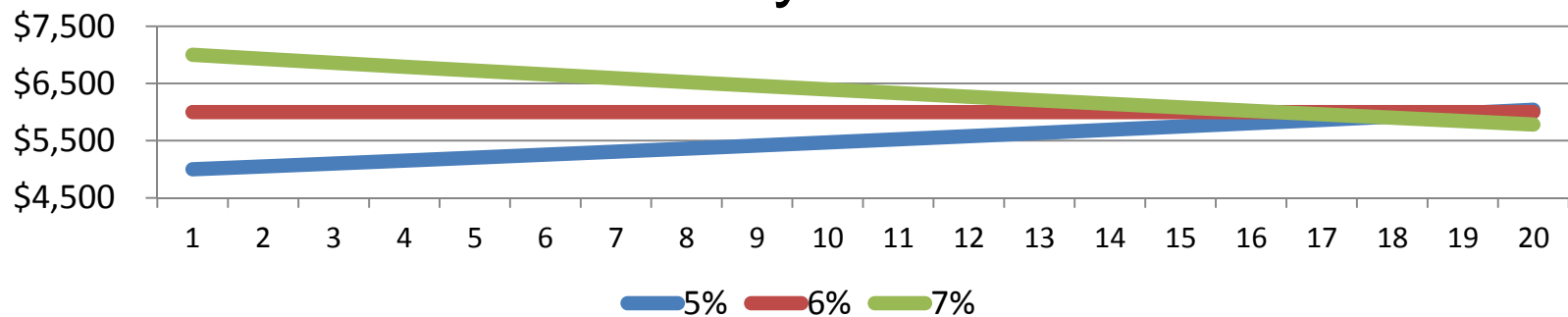


Trust Performance Over 20 Years (Assuming a 6% net total return)

Trust Principal



Beneficiary Income





Charitable Remainder Unitrust

Charitable Remainder Unitrust funded with appreciated property

Assumptions	
Beneficiary Age	72
Value of Property Donated	\$100,000
Cost Basis of Property	\$20,000
Payout Rate	5%
Charitable Deduction (CMFR = 2.4%)	\$56,243
Estimated Income in First Full Year	\$5,000
(Future income will vary each year with trust value.)	



Life Income Projection

Assumptions

Projection runs for 14 years (life expectancy at age 72)

Original Principal is \$100,000 with \$20,000 cost basis

Income tax bracket 35%, 15% for capital gains

Total investment return (income + appreciation) 6% per year

Charitable Deduction

\$56,243

Income Tax Savings at 35%

\$19,685

After-tax Cost of Gift

\$80,315

Total Before-tax Income to Beneficiary

\$74,737

Projected Remainder for Charity

\$114,947



CRUT vs. Sell & Reinvest

Assumptions

Projection runs for 14 years (life expectancy at age 72)

Original Principal is \$100,000 with \$20,000 cost basis

Income tax bracket 35%, 15% for capital gains

Total investment return (income + appreciation) 6% per year

	5% CRUT	Sell
Gross Principal	\$100,000	\$100,000
Net Principal to Invest	\$100,000	\$88,000
Capital Gains Tax Paid	\$0	\$12,000
Tax Savings from Charitable Deduction	\$19,685	\$0
Total Before-tax Income to Beneficiary	\$74,737	\$65,769
Remainder to Charity or Heirs	\$114,947	\$101,903



Charitable Lead Trust

- Pays income to charity for a term of years, then distributes remainder to individuals
- May be either annuity trust or unitrust
- “Non-grantor” type generates gift tax deduction that can reduce gift tax on transfer of remainder to others



Charitable Lead Annuity Trust

- \$10 million asset contributed to 20-year CLAT
- CLAT pays \$625,000 to charity each year
- After 20 years, trust assets transfer to heirs
- Results:
 - \$12.5 million given to charity over 20 years
 - Transfer to heirs 20 years hence is tax-free due to gift tax deduction



Retained Life Estate

- Donor irrevocably contributes home or farm now but retains right to live in and use it
- Income tax deduction now for calculated value of charity's right to property
- Donor continues to pay expenses for taxes, maintenance, et cetera



Retained Life Estate

Assumptions

Life Tenant is Age 72	72
Value of Property is \$600,000	\$600,000
Value of Buildings is \$400,000	\$400,000
Useful Life of Buildings is 45 years	45 years
Salvage Value of Building is \$100,000	\$100,000
Charitable Deduction (CMFR = 2.4%)	\$389,379



Still Have a Question?

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