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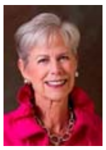
10 Practical Planned Giving Ideas for the Current Environment



Date: August 27, 2015

Time: 1:00 – 2:30 Eastern Time

Presenter: Kathryn Miree
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Agenda

- The current challenges
- Ideas #1 and #2: simple but smart
- Ideas #3 and #4: using the family business to make a charitable gift
- Ideas #5 and #6: gifts that take care of family

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Agenda

- Idea #7: gifts to fund retirement
- Idea #8: selecting the right asset
- Ideas #9 and #10: gifts where gift and estate taxes are not an issue

The Current Challenges

Many factors impact charitable planning:

- Fluctuating stock values
- Low interest rates
- High income tax rates/low estate tax rates

The Current Challenges

- Rising healthcare costs
- Fewer jobs
- All donors, at all wealth levels, have been affected

The Current Challenges

- The stock market has fluctuated wildly since 2000

Key Equity Indexes	*Close on 12/31/1999*	*Close on 7-21-2015*	*Change Over 15-Year Period*
Dow Jones Industrial Average	11,497.12	17,919.29	55.86%
NASDAQ Composite	4,069.31	5,208.12	27.99%
S & P 500	1,469.25	2,119.21	44.24%

The Current Challenges

- The prime rate has remained at 3.25% since the first quarter of 2009.
- The §7520 rate slipped as low as 1% over this period.
- Low rates dramatically affect the retirement income for individuals, and the charitable income tax deduction for donors

The Current Challenges

- Interest rates (CFMR) affect the charitable deduction

	1.4% CFMR	*5.8% CFMR*
$1,000,000 5% CRAT	$235,224	$495,747
$1,000,000 20-year, 5% CLAT	$866,950	$582,920

The Current Challenges

- Congress is changing the rules
- Pension Protection Act of 2006
- American Taxpayer Relief Act of 2012

The Current Challenges

Charities are having difficulty following donor directives, and donors (and their families) are filing lawsuits:

- The Robertsons and Princeton University
- Tulane and the Newcomb family
- The Barnes Foundation
- Fisk University and O'Keeffe Foundation

The Current Challenges

- Yet, donors keep giving

Source	*Amount in Billions*	*Percentage of Total*
Individuals	$258.51	72%
Foundations	$53.97	15%
Bequests	$28.13	8%
Corporations	$17.77	5%
Total	$358.38	100%

The Current Challenges

United States 2012 Tax Year	*The Numbers*	
Number who filed	145,025,450	
Number who itemized	45,792,280	31.58% of all who filed
Number of itemizers with charitable deductions	37,490,960	81.87% of all who itemized
Total charitable deductions on individual tax returns	$198.552 billion	

Idea #1: Accelerate Charitable Gifts

Accelerate charitable gifts:

- Gifts destined for charity that generate no income
- A testamentary gift of a home or farm by making a retained life interest gift
- A bequest to create a charitable gift annuity

Idea #2: Use IRD Property in Estate

Use Income in Respect of Decedent (IRD) assets for testamentary gifts:

- Retirement plan assets
- Savings bonds with accrued, untaxed income
- Deferred compensation

Idea #2: Use IRD Property in Estate

- Accounts receivable
- Unrecognized income from annuities
- Remaining installment sale payments
- Accrued interest/dividends on securities

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Idea #2: Use IRD Property in Estate

Lifetime giving options for IRD assets are limited:

- IRA Charitable Rollover is not currently in effect.
- Lump sum distribution from profit-sharing using appreciated assets to fund CRT may be an option

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Idea #2: Use IRD Property in Estate

Testamentary options are almost unlimited:

- Outright gift to public charity
- Outright gift to private foundation
- Gift to fund CRT or CGA for family

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Idea #2: Use IRD Property for Testamentary Gifts

	$250,000 Bequest of Retirement Plan to Family	*$250,000 Bequest of Retirement Plan to 5%, 20-Year CRAT*
Total Estate	$4,000,000	$4,000,000
Total Taxes on $250,000 Retirement Plan	$99,000	$0
Effective Tax Rate on Retirement Plan (federal taxes only)	39.6%	$0
Net Bequest	$151,000	$250,000
Net Savings vs. Bequest		$99,000

Idea #3: The Family Business as a Gift

- The family business may be the single most important asset held by donors
- Family businesses represent 80 - 90 percent of all business entities
- The generational transfer rate is low: 70% do not survive to the 2nd generation; 88% do not survive to the 3rd; and 97% do not make it to the 4th or beyond

Idea #3: The Family Business as a Gift

- Yet, 19% of family business participants have no estate plan other than a will
- Only 37% have strategic plans
- 85% of those who identify successors look to family

Idea #3: The Family Business as a Gift

STEP ONE $500,000, 5% NIMCRUT with FLIP Provision	*STEP TWO Sale of Remaining Shares to Purchaser*	*STEP THREE*
$500,000 Gift	$4,500,000 Sale	Purchaser buys $500,000 of stock from CRUT
$100,000 Tax Basis	($900,000) Tax Basis	
$178,725 CD	$3,600,000 Gain	
$25,000 First Year's Income	$540,000 Tax at 15%	

Idea #4: The Family Business as a Gift

- Company has large accumulated earnings
- Same gift structure
- Company makes tender for all outstanding shares
- Shares are bought by the company using accumulated earnings; converted to treasury stock

Idea #5: A Gift for Special Needs

- Use a charitable gift annuity to fund an existing special needs trust
- Create a spray power for the trustee of a charitable remainder trust to make special needs payments first to the special needs child, remainder to remaining beneficiaries

Idea #6: A Gift for Parents

Two Life CGA Ages 78 & 82	*Amount*
Principal Amount	$100,000
Charitable Deduction	$42,716
Annual Income to Parents (5.7%)	$5,700
Tax-free Portion	$4,441
Ordinary Income Portion	$1,259

Idea #7: A Gift to Fund Retirement

Two Life CGA Ages 70 & 71	*Amount*
Principal Amount	$25,000
Charitable Deduction	$8,042
Annuity Amount (4.6%)	$1,150
Tax-free Portion	$844
Ordinary Income Portion	$306

Idea #8: A DCGA to Fund Retirement

Age at Date of Gift	*Amount of Contribution*	*CGA Rate*	*Charitable Deduction*	*Annual Payment Single Gift*
45	$25,000	9.0%	$7,254.48	$2,225
49	$25,000	7.9%	$7,772.87	$1,975
53	$25,000	6.9%	$8,281.82	$1,725
54	$25,000	6.7%	$8,317.33	$1,675
Total for 10 years	$100,000		$78,427.69	$19,450

Idea #8: Selecting the Right Asset

- Marketable securities
- Privately held securities
- Real estate
- Life insurance
- Tangible personal property

Idea #8: Selecting the Right Asset

What to consider:

- The recipient of the charitable gift
- The donor's goals for the gift
- The donor's goals for the asset
- The asset's basis

Idea #9: Partial Interest Gifts

- Few individuals are affected by estate tax
- In 2000, when $675,000 was excluded from estate tax, 4.5% of all decedents were subject to the tax and 2.16% paid tax
- Joint Committee on Taxation projects only 2 of every 1,000 decedents will be subject to estate tax in 2015

Idea #9: Partial Interest Gifts

These partial interest gifts do not qualify for a charitable income tax or estate tax deduction:

- Gifts of future interests
- Gifts divided for the purpose of transfer
- Work of art separated from copyright

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Idea #9: Partial Interest Gifts

Testamentary options for donors:

- Make a gift of income from stocks to a family member, then transfer the asset/income to charity - or the reverse
- Devise surface right to charity, mineral rights to heirs
- Transfer a percentage of interest in a business' profit

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Idea #10: Trusts with Mixed Beneficiaries

Possible to combine personal and charitable goals in testamentary planning. Watch for:

- Unintended consequences in drafting
- Income tax consequences inside the trust; in 2015 highest tax threshold is $12,300
- Revocable trusts with testamentary provisions are also an option

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Final Thoughts

- Effective planning is about meeting client goals
- You have many opportunities, and gift planning has extraordinary impact, in this new environment
- Look for ways to combine a donor's personal and charitable goals

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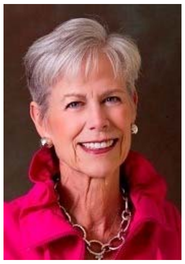
Questions and Answers



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Still Have a Question?

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