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Beyond Cash Gifts

Charitable Giving Strategies

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Charitable Gifts During Life or at Death?

Benefits of Lifetime Charitable Gifts

Benefits of lifetime giving: personal satisfaction of having a positive impact during life; income tax deduction; gift tax deduction; may use techniques that combine charitable gift with financial benefit

“Charity” refers to a 501(c)(3) non-profit organization. There are other types of non-profit organizations that do not qualify for deductions from gift, estate or income tax

Amount of deduction granted for assets depends on the type of asset and the classification of the charity. For gifts of certain types of assets (i.e., short-term gain property or gift to private foundation) a deduction is allowed only for the donor’s basis in the property

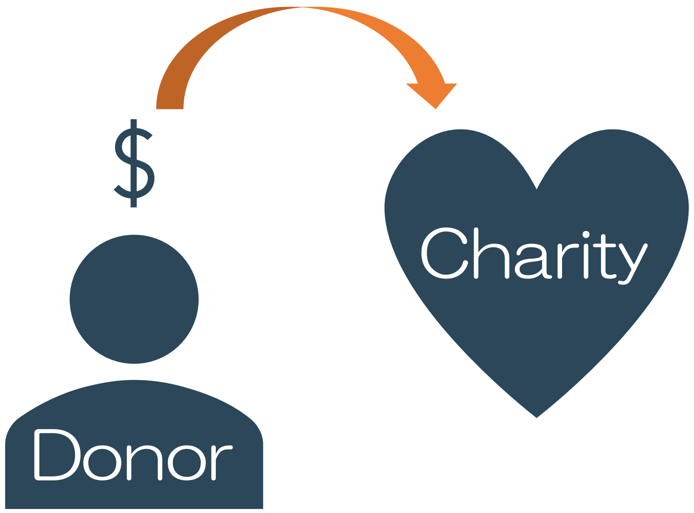
Charitable deductions can be claimed only up to a percentage of donor’s income. Applicable percentage depends on the type of assets and the type of charity. Percentages range from 20% to 60% of income. Deductions that exceed the income percentage can generally be carried forward for 5 years.

Benefits of Charitable Gifts at Death

- Estate receives a charitable deduction for estate taxes
- Retain the use of your assets during your life
- Charitable gift can be combined with techniques that reduce estate or income tax for your family

Gift of Cash

Step 1: Gift of cash to charity



Step 2: The charity can put your gift to immediate use

Step 3: Charitable deduction

Gift of Cash

- Simple
- Charitable deduction of the amount given
- Immediate benefit to charity
- Alternatives may result in more tax savings

Gift of Appreciated Asset

Step 1: Gift of appreciated securities or real estate

Step 2: Income tax deduction

Step 3: The charity sells or holds the securities or real estate

Gift of Appreciated Asset

- Best asset to give is one that has appreciated since purchase
- Charitable deduction for full value of the asset (assuming asset meets certain requirements, including that it would produce long term capital gains if sold)
- Will need appraisal of asset other than marketable securities
- Avoids the payment of capital gains tax
- No disadvantage to charity, since charity is exempt from income tax

Cost of Charitable Gift

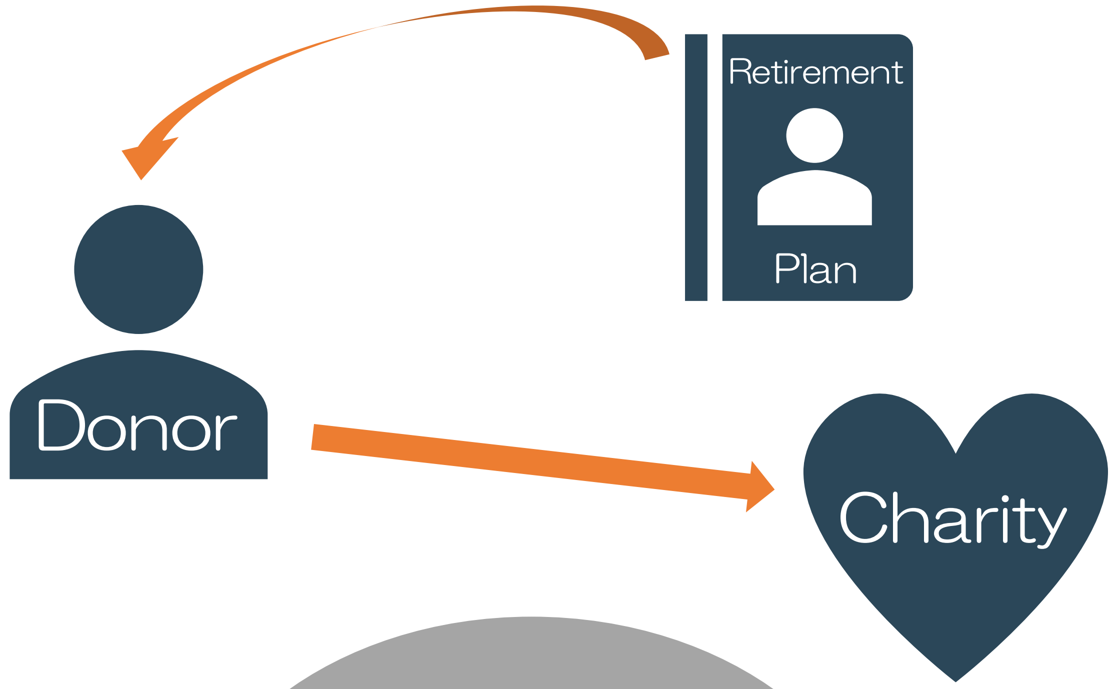
Gift of Cash of $100,000

- Value of charitable deduction, assuming donor itemizes deductions and is in the 24% tax bracket (if married, income of from $190,750 to $364,200) is $24,000 ($100,000 times 24%)
- Net cost of gift is $76,000.

Gift of $100,000 of Appreciated Stock with Basis of $30,000

- Avoid capital gains tax on $70,000 of gain ($100,000 less $30,000).
- Tax Avoided is $10,500 ($70,000 times 15% capital gain rate).
- Still receive deduction of full $100,000
- Net cost of gift is $65,500

Gift of Taxable Distribution from IRA



Step 1: Distribution from retirement account to you (taxable)

Step 2: Cash gift to charity

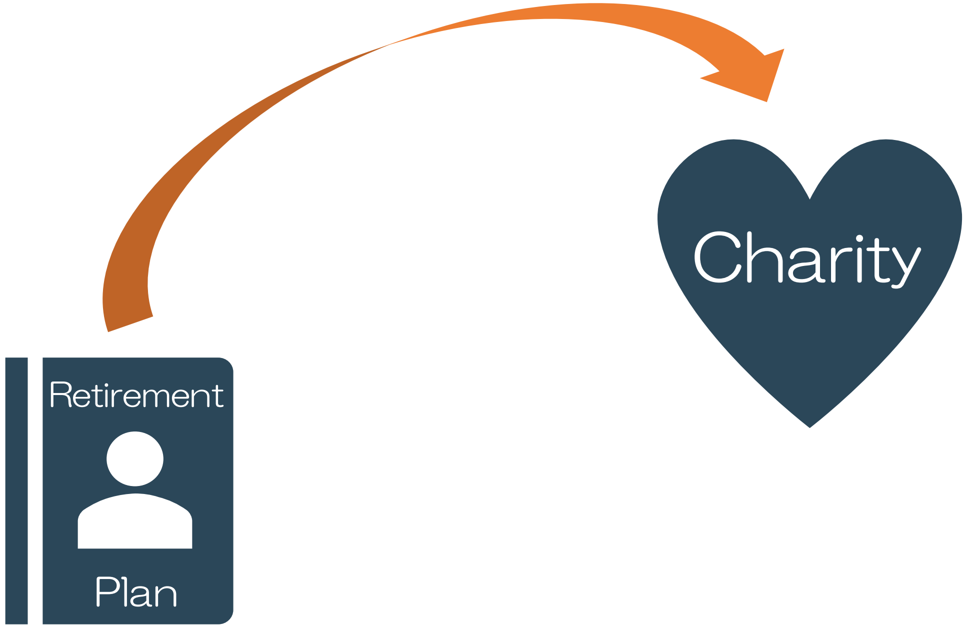
Step 3: Receive charitable deduction

Gift of Taxable Distribution from IRA

Distribution from IRA results in taxable ordinary income

Donor receives charitable deduction which may offset the tax

Qualified Distribution from IRA



Step 2: Administrator transfers directly to the charity

Step 1: You instruct administrator of IRA to distribute to charity

Qualified Distribution from IRA

- Donor must be at least 70½
- Limited to $100,000 per year
- Must be made directly from custodian of IRA to charity
- Avoids income tax on distribution and can meet minimum distribution requirements
- Benefits individuals who cannot deduct the charitable contribution because they do not itemize or because their charitable contribution deductions cannot exceed 60% of taxable income

Gift of Retirement Account at Death

Step 1: You name charity as the beneficiary upon your death

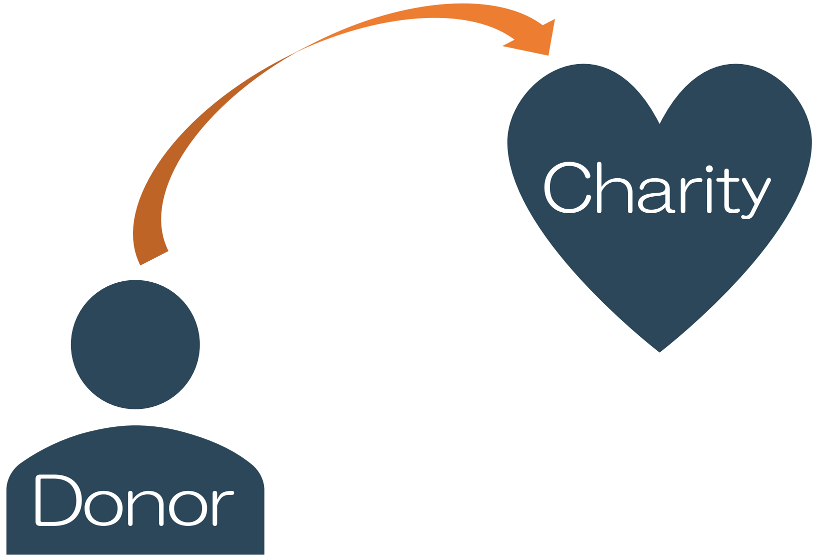
Step 2: Upon death, the retirement account passes automatically to the charity

Step 3: Estate receives an estate tax deduction and payment of income tax is avoided

Gift of Retirement Account at Death

- Retirement accounts are often the best asset to give to charity at death
- Retirement accounts are included in decedent's taxable estate and may be subject to federal or state estate tax, or both
- If an individual receives a retirement account, they must withdraw the entire amount within 5 or 10 years of decedent's death
- When an individual withdraws funds from a taxable retirement account (i.e. does not apply to Roth accounts), the entire amount distributed is subject to income tax at ordinary rates
- If the retirement account passes to a charity, the estate and income taxes are avoided

Future Interest in Residence



Step 1: Deed to you for life, remainder to the charity

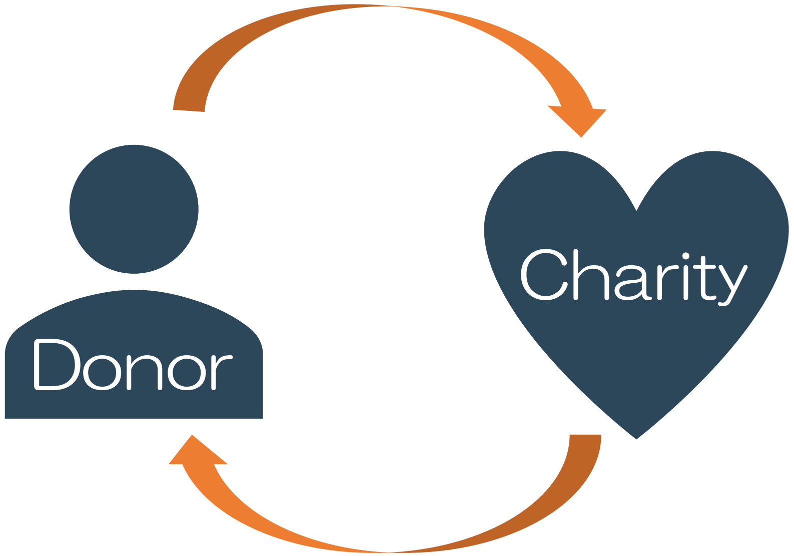
Step 2: Agreement that you maintain and live in residence until death

Step 3: At your death, residence passes to charity

Future Interest in Residence

- Must be of personal residence (principal or vacation) or a farm
  Donor’s retained right can be for life or term of years
- Charitable deduction for charity’s future value allowed in year of transfer
- Donor must maintain property
- If Donor is certain they want to give residence to charity at death, this provides them with an income tax charitable deduction without giving up any lifetime benefit
- Charity gets future benefit
- If uncomfortable with irrevocable transfer, can use transfer on death deed

Charitable Gift Annuity



Step 1: You give a gift of cash or property to charity (and receive an income-tax deduction)

Step 2: The charity makes fixed payments to you and/or another beneficiary starting immediately for a term

Step 3: Remainder to charity at end of term

Charitable Gift Annuity

- Annuity payments can be for up to 2 people for life
- Annuity payments will be established using value of the gift and term of annuity payments. Older donors will receive higher percentage payments
- Charity's promise to pay annuity is not secured, but is backed by charity's assets
- Can give appreciated assets which will avoid capital gains tax, but part of annuity payment will be taxed as capital gain. If giving cash, part of payments may be free of tax

Sophisticated Charitable Gift Annuities

Standard gift annuities are normally structured to pay a fixed percentage that does not vary over time.

But gift annuities can be structured as flexible arrangements. Each annuity would normally give the donor the same charitable deduction as a standard annuity and give the charity the same benefit, as determine by actuarial calculation. Some examples of flexible arrangement include:

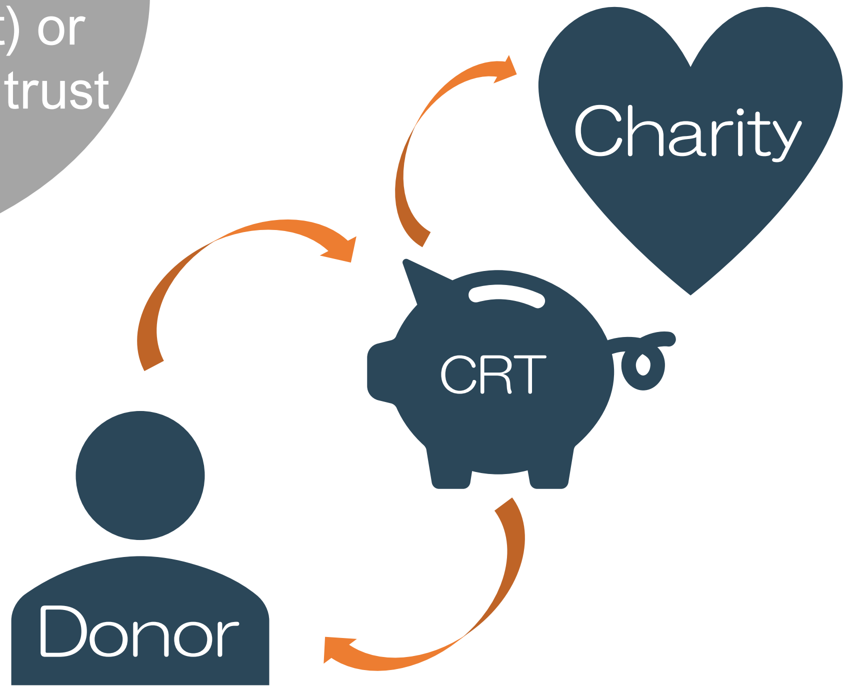
- Annuity percentage increasing over time;
- Delayed payment of annuity for a specific time after transfer;
- Delayed payment of annuity until the annuitant elects to start payments.

Charitable Remainder Trust

Step 3:
Remainder to charity at end of income term

Step 2: Trustee makes payments to income beneficiaries – can be fixed amount (annuity trust) or can vary with value of trust asset (unitrust)

Step 1: You transfer assets to trustee (and receive a charitable income-tax deduction)



Charitable Remainder Trust

Ideal for donor who holds appreciated asset they would like to sell, but which would result in substantial capital gains. Often used for real estate

Income stream may be either for life or a term up to 20 years and may be either a fixed amount (annuity) or may fluctutate with value of trust assets (unitrust)

Percentage of income paid to donor must be at least 5% of value of trust assets

The trustee of the CRT sells the assets and no tax is paid, since the CRT is tax-exempt. The entire amount received is available to invest and to be used to pay the income stream

Payments received by donor will be taxed according to income earned by trust. If trust sold appreciated asset, part of payment will be taxed as capital gains

Types of Charitable Remainder Trusts

- Two basic types – annuity or unitrust
- Standard CRT – pays percentage amount to donor regardless of the income of the trust.
- NICRUT – pays the lesser of the percentage amount or the net income of the trust.
- NIMCRUT – is a NICRUT but contains an “income make-up provision”
- Flip CRUT – starts as either a NICRUT or a NIMCRUT and flips to a standard CRUT either upon some event (i.e., sale of asset) or a date certain.

Differences between CRT and Gift Annuity

- CRT can be unitrust.
- Either can be terminated early if donor finds they do not need the cash flow and an additional charitable deduction will be available. For a CRT, the deduction will be the entire remaining value of the income term, but for a gift annuity, it will only be donor's remaining basis.
- Gift annuity has no self-dealing rules; therefore, donor can lease back property; property could be purchased from the charity by a family member; or residence could be transferred with donor continuing to live in house until it is sold.

Bargain Sale to Charity

Step 1: You sell assets to charity for a price less than the full fair market value of the asset

Step 2: You receive a charitable deduction

Step 3: You recognize income tax on the sale

Bargain Sale

- Treated as part sale/part charitable gift
- Charitable deduction will be the difference between the fair market value and the sales price
- Sale part will cause tax to the extent the amount received exceeds donor's basis in the percentage of the property that was transferred.

Bargain Sale of Securities Worth $1 million with income tax basis of $100,000

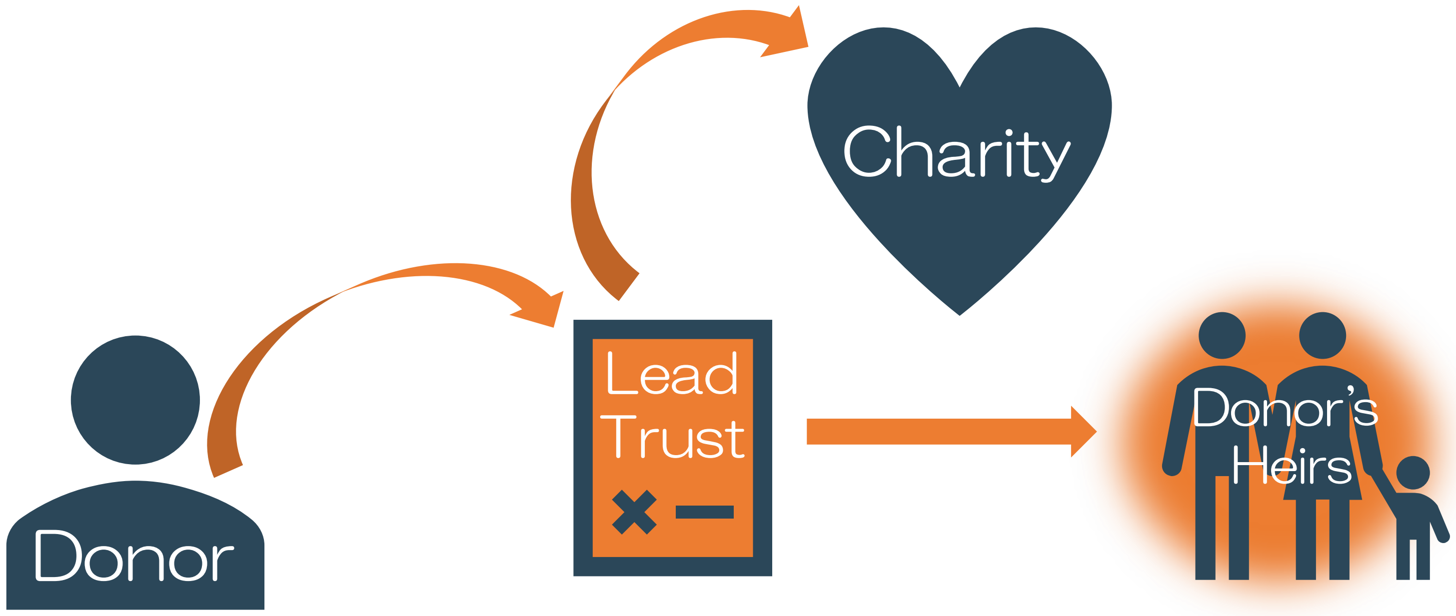
Sale of securities followed by charitable gift of $500,000

- Sell securities and pay capital gains of $135,000 ($1million less $100,000 times 15%).
- Donate $500,000 to charity and receive a charitable deduction worth $120,000.
- Cost of gift is $447, 500 ($500,000 plus $67,500 (gain on half the securities) less $120,000).

Sale of securities for $500,000

- Charitable deduction of $500,000 worth $120,000
- Gain on sale - $500,00 less $50,000 (half the basis in stock) equals $67,125.
- Cost of gift is $380,000 ($500,000 less $120,000)

Non-Grantor Charitable Lead Trust



Step 1: You transfer assets and receive gift or estate tax deduction

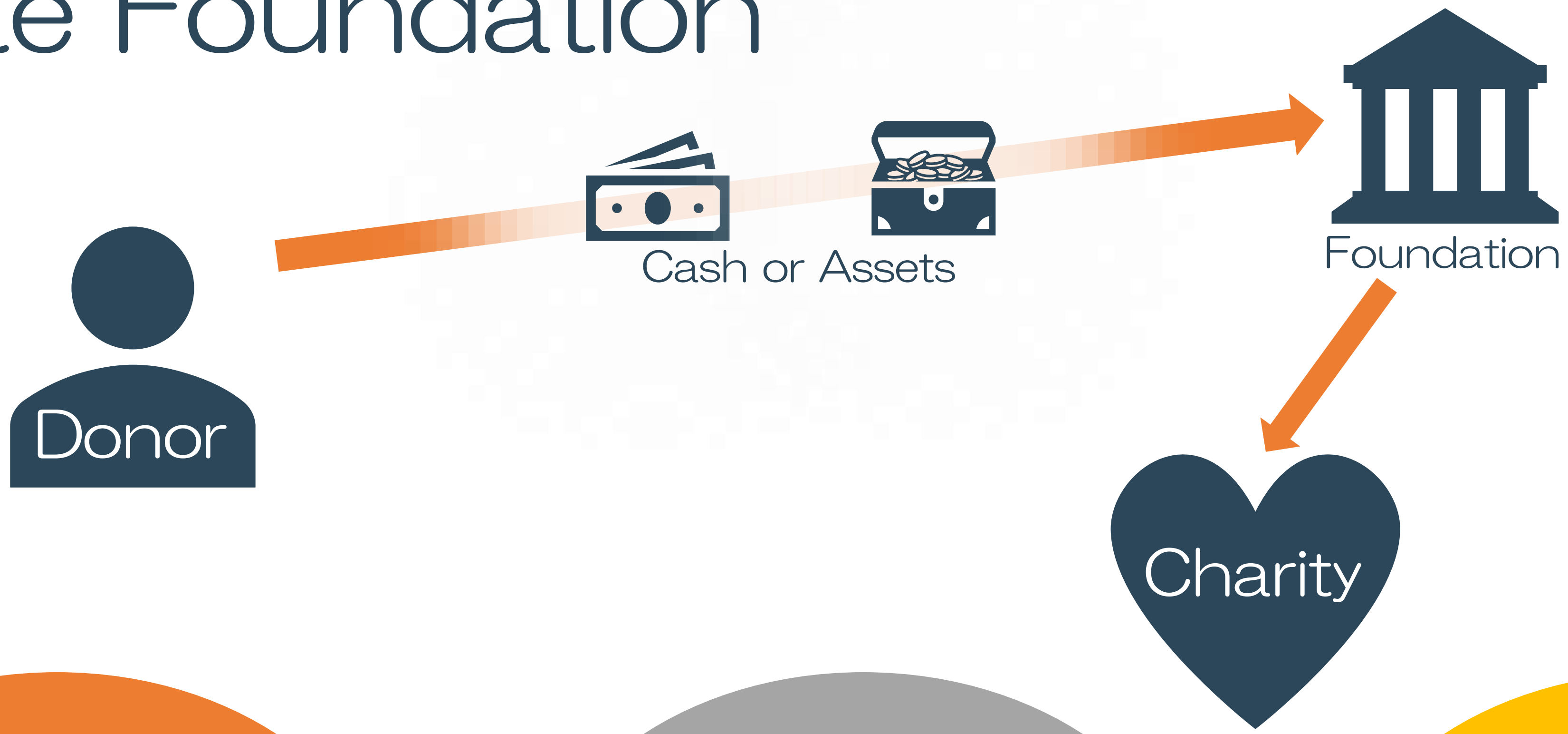
Step 2: Trust makes annual payments to charity for term

Step 3: Trust remainder paid to your heirs at end of term

Non-Grantor Charitable Lead Trust

- May be established during life or at death
- Normally remainder is given to heirs
- Used to achieve gift and estate tax savings rather than charitable income tax deduction
- Donor does not receive an income tax charitable deduction when trust is established
- Trust pays tax on all income earned after transfer and the trust is allowed a charitable deduction for all amounts paid to charity

Private Foundation



Step 1: You form Private Foundation

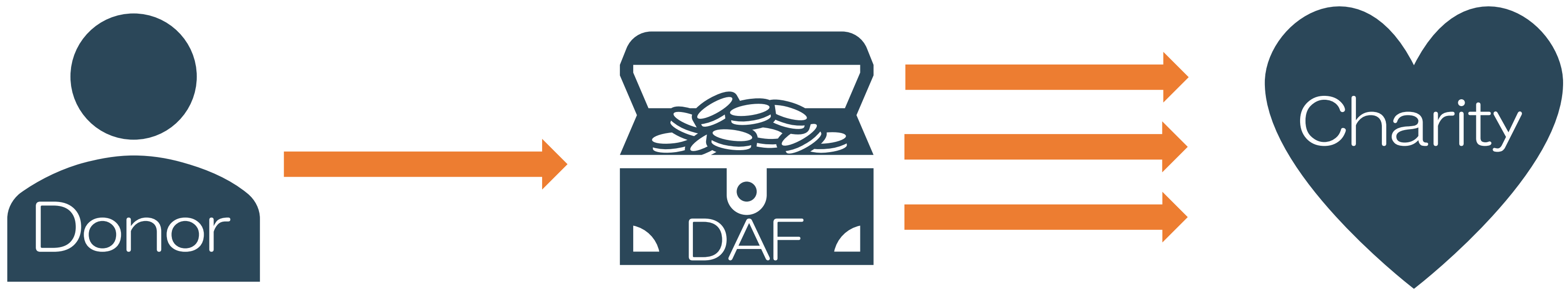
Step 2: You transfer cash or appreciated assets

Step 3: Private Foundation holds and invests assets, distributing to charity over time

Private Foundation

- A charitable organization generally supported by single individual or small group of people rather than the general public
- Can be operated by those that established the PF, or by a trustee or board of directors
- PF can undertake active charitable work, but most often, the PF distributes funds to operating charities over time to carry out the charitable work
- Because PF can be abused, there are numerous rules and regulations governing their operation and severe penalties can be imposed for violation of these rules
- Donor to a PF receives an income tax deduction, but the deduction is more limited than a deduction to a public charity
- PF must distribute at least 5% of the value of its assets each year to public charities

Donor Advised Fund (DAF)



Step 1: You create a DAF account at a sponsoring organization, naming an advisor, usually yourself

Step 2: You transfer cash or assets to DAF and receive a charitable income tax deduction

Step 3: Assets are held in DAF. The Advisor informs the DAF to make charitable distributions

Donor Advised Fund (DAF)

A DAF is an account held at a sponsoring entity like a community foundation or a financial institution

Donor receives a charitable deduction when assets are contributed to the DAF and the funds within the DAF grow income tax-free

All funds in a donor’s DAF account must be given to charity, but those gifts do not need to be made immediately

The donor (or someone else appointed by the donor) advises when distributions to charity should be made from their DAF account

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Questions?

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