

Introduction to Planned Giving and Endowments

Adopted from the Planned Giving Course for United Jewish Communities, June 2004

What is planned giving?

Many potential donors desire to give a charitable gift but are unable to do so immediately as they need their assets in order to provide income to themselves, their spouses, or other persons. For these donors the solution may be a form of planned (or deferred) giving. With deferred giving, the charity receives full use of the gift asset at some later date.

Many types of planned giving you may already be familiar with. Some of these are described briefly below.

Bequest: By far, the most common form of deferred giving, an outright charitable bequest is made through terms of a will. It may be either a specified amount, a percentage of a final estate, or the residual of an estate after all other specific bequests have been made.

Life Insurance Policy: A charity may be named as beneficiary on a life insurance policy.

Retirement Plan or IRA: A donor may designate a charity as a beneficiary of a retirement plan, IRA, or annuity, payable upon death. As a not-for-profit, the charity would not be subject to income or estate taxes on retirement plan assets, which non-charity heirs would be subject to.

Charitable Gift Annuity (CGA): In exchange for a gift to a charity, the charity provides up to two individuals, which may include the donor, with an income for life or lives. The annuity amount is rated based on the age of the donor. At the death of the donor or donors, the remaining funds are available for use by the charity. Richmond Jewish Foundation offers this program for the community.

Charitable Remainder Trust (CRT): Funds are irrevocably transferred to a trust, which pays an annuity to the donor or other beneficiaries for an agreed-upon term of years or for life. At the conclusion of the term, the trust distributes the remainder to the Charity. Trusts are more commonly used for larger gifts. Richmond Jewish Foundation offers this program for the community.

Charitable Lead Trust (CLT):

Funds are irrevocably transferred to a trust that provides annual income to the Charity for a life term or a term of years, with the remainder transferred back to the donor or to the donor's designated beneficiaries. It is useful to donors who do not need income from an asset for a period of years, but wish to transfer it to others with little or no gift or estate taxation.

Planned gifts provide many benefits including the satisfaction that donors will have knowing they are helping an institution to fulfill its mission for many years to come. Another benefit is the peace of mind that the donor feels knowing that estate plans are in order and personal needs as well as those of loved ones will be met while charitable intentions will be fulfilled upon death. Additionally, many deferred gifts receive favorable tax treatment. Capital gains taxes can often be avoided or deferred, and some deferred gifts receive charitable gift deductions on your federal income tax.

What is a charitable bequest, and how does a donor execute one?

A bequest refers to the transfer of assets at death through operation of the donor's will. The donor's will must meet the state requirements for a valid will, which usually indicates, among other things, that he must be mentally competent, the will must be in writing, and it must be witnessed. Other instruments such as revocable trusts, transfer of jointly held property, and naming a charity as a beneficiary of a pension or other fund are other methods in which a donor may make a transfer of assets to charity at death.

Observation

Obviously, there are no current income tax deductions for charitable bequests.

A charitable bequest, to be effective, must include the correct legal name of the charity organization. To provide a charitable deduction, the charity organization must be included under the IRS rules for estate tax deductions.

There are several ways in which a bequest may be expressed:

- It may be a specific dollar amount, such as \$10,000, \$100,000 or \$1 million.
- It may be a percentage, such as 1%, 10% or 50% of the gross estate or residual estate.
- It may direct that a specific asset, such as a stock fund, an IRA, a house, or an art collection go to the charity.
- Or it may be a contingent bequest, which is effective only after certain conditions are met. For example, the donor may say "all of my estate goes to charity if my wife predeceases me."
- The donor may create a logical formula involving shares of the estate, or proportions.
- The donor may use a combination of methods.

Why is the donation of a retirement plan, such as an IRA a preferred bequest?

For a donor who wishes to make a bequest, a charitable gift of a qualified retirement plan or IRA assets can give the donor and heirs savings on estate and income taxes while assisting the Charity. With proper tax and legal advice such gifts are often a preferred form of bequest.

Retirement plan assets are one of the most commonly owned assets. For many individuals, a retirement plan is their single largest asset. Tax incentives make these a preferred way to save and their asset growth has been significant in the past decade. However, after death, when these assets must be passed on to heirs, they are subject to heavy taxation. By leaving such assets to a charity, significant tax savings for both the estate and the heirs can occur. It is sensible to make a gift with an asset that generates the best tax benefits.

Case Study: Gift of an IRA

A donor has qualified retirement plan assets worth \$1.5 million and other assets worth \$2.5 million. She wants to give \$1.5 million of her total \$4 million estate to charity and the balance to heirs. A comparison of the two options of contributing the retirement plan or other assets is shown below. Note that these calculations do not take into consideration additional state taxes on inheritances in many states:

Gift of Gift of Retirement Plan

Gross Estate	\$4,000,000	\$4,000,000
Gift to charity	1,500,000	1,500,000
Adjusted Gross Estate	2,500,000	2,500,000
Estate Tax Exclusion Amount (2004)	1,500,000	1,500,000
Taxable Portion of Estate	1,000,000	1,000,000
Estate Taxes Due (2004)	345,800	345,800
Balance to Heirs	654,200	654,200
Income Taxes Due on Retirement Plan Distributions (lump sum at 35.0%)	0	228,970
Net After-Tax Balance to Heirs	654,200	425,230