Making a Difference

Creative Ways to Make Gifts

Most of us want to leave a legacy. We want to leave the world a better place as a result of our talents and gifts. We want to contribute to important causes that benefit the lives of future generations.

In the past, people thought only a privileged few could create such legacies, but the way we think about giving has changed, as have the ways we give. Today, there are tax-favored ways to give that make meaningful gifts possible.

You may be able to realize tax benefits, supplement your retirement income and provide financial support for loved ones (a spouse, child, grandchild, or parent) all while making your personal statement—a more generous gift than might otherwise have been possible. We rely on these gifts to help shape our future and they leave a lasting legacy.

Charitable giving can be personally satisfying and rewarding. This is especially true when donors make philanthropy a regular part of their financial and estate planning. Donors find they can do more for charities and generate greater tax and financial benefits when giving becomes an active part of their planning.

There are many opportunities available with the addition of planned gifts. The specific plan that works for you will depend on your own circumstances and goals. Please consult your tax and financial advisors during your decision-making process. We can work with you and your advisors to help you explore practical ways to meet your planning and philanthropic goals.

Gifts of Cash

Cash is the simplest and most popular way to make a gift. Cash is immediately available to support our programs, and every dollar you give is deductible in the year you make the gift. Thus, a person whose income is in the 33% federal income tax bracket can give $1,000 to a qualified charity at an after-tax cost of $670.

Limitations on the Charitable Deduction

The income tax charitable deduction cannot exceed 50% of your adjusted gross income (AGI) in the year of the gift. For example, a donor with an AGI of $90,000 can deduct cash gifts of up to $45,000. Any excess over 50% can be carried over and deducted the next year.

Gifts of Marketable Securities

Gifts of long-term appreciated securities are the most popular type of outright property gift. These securities are often individual stocks, but may be bonds or shares of mutual funds. You can make an outright gift of securities quickly and easily, and the tax benefits enable you to do more with your gift.

For gifts of appreciated long-term property (held longer than one year), you can generally deduct the full fair market value. For example, if you give shares of a stock that is now worth $10,000, you can deduct this full amount on your income tax return even though you may have bought the stock for substantially less.

The value of the stock—and the amount of your charitable contribution—is the average of the highest and lowest selling price on the date of the gift (or the average bid and asked price). If possible, make your gift at a time when the market value of the stock is relatively high.

A charitable gift of securities is not considered a sale and therefore does not result in any capital gains tax, no matter how much the securities have appreciated in value. This is an important tax reward provided by Congress to encourage gifts of appreciated property. In essence, you are allowed a charitable deduction for profits that have never been taxed to you, and we are allowed to keep every penny when we sell the securities because of our tax-exempt status.

Limitations on the Charitable Deduction

The income tax charitable deduction allowable for a gift of long-term appreciated securities cannot exceed 30% of your adjusted gross income in the year of the gift. Any excess over 30% can be carried over and deducted the next year.

Note that the "full fair market value" rule only applies to long-term securities. For securities you've held for one year or less, the charitable deduction is limited to your "adjusted cost basis" for the security (generally speaking, what you paid for it).

Gifts in Your Will

A gift in your will is an easy way to make a gift to charity. When you make a gift in your will, you retain full use of your property, so there is no disruption of your lifestyle and no immediate out-of-pocket cost. You simply direct that part of your estate go to one or more of your favorite charities. One important reason to have a will is the opportunity to control the use of your "social capital." Without a will, the government will make decisions for you.

Since a gift in your will can take many forms, you have considerable flexibility. You can leave

a specific asset, a specific sum of money, a percentage of your estate or what remains of your estate after you have provided for other beneficiaries. You can designate exactly how you want your gift to be used (for instance, to honor a beloved relative or a cherished friend) or leave it unrestricted so that we have the flexibility to meet our ever-changing needs. Most importantly, you can change your will during your life, which means you remain in complete control of the process.

While a gift in your will offers no income tax benefits, it is fully deductible for estate tax purposes when you meet basic requirements. And keep in mind that for estates subject to the estate tax, the tax rates are historically higher than income tax rates.

If you want to make a gift in your will (or you have already done so) it's important to let us know. We want the opportunity to thank you for your commitment and generosity, but we also want to offer our help as you plan your gift so that you get the most satisfaction out of it. Often, careful planning can magnify the impact of a gift.

We invite you to consider the difference you can make through a gift in your will. Creating a will is important for so many reasons, and if you already have one, it is simple for your attorney to add a codicil to include your gift. We can provide you and your attorney with the suggested language for the various forms of gifts or other pertinent information which may be helpful to you.

Life Income Plans—Gifts with a Retained Income

In addition to outright transfers of cash or property, donors can receive a tax deduction and make a gift that pays income for life. These arrangements—often called life income gift plans—are popular with donors because both donor and charity can benefit.

Under a well-planned life income arrangement, you often can reduce taxes, increase your spendable income and, at the same time, make a gift that will have a substantial impact on our future. You benefit now and we benefit later, after you have enjoyed all of your financial and tax benefits.

Charitable Gift Annuities

A gift annuity is an agreement under which you make us a gift and we agree to pay you fixed payments for your life (and/or the life of your chosen beneficiary). The amount of the annuity is based on the amount of the gift and the age of the annuitant(s) at the time the gift is made.

The gift annuity is very popular for several reasons. It requires only a modest contribution and you can fund it with cash or marketable securities. You can receive an immediate income tax charitable deduction for the gift (subject to AGI limitations), and possibly spread out any capital gains tax liability. What's more, part of your annuity payments may be federal income tax free. In addition, you can select the payment intervals (usually quarterly) and name your beneficiaries (usually yourself and/or another).

Middle-aged professionals, particularly those who regularly max out their annual retirement plan contributions, may want to consider the deferred gift annuity. Under this arrangement, you receive your income tax deduction now during your high income years and postpone your annuity payments until later (usually after retirement) when you may be in a lower tax bracket. Compared to the same gift made as a regular gift annuity, the deferred gift annuity offers a higher payout rate and a greater charitable deduction. And through a deferred gift annuity, you can effectively supplement your retirement savings and make a substantial gift, one that can leave a lasting legacy for us.

Charitable Remainder Trusts

One method of generating income and reducing income tax is to make a gift using a charitable remainder trust. A charitable remainder trust provides:

- An income for you and/or beneficiaries selected by you for life or a period of up to 20 years.
- An immediate and substantial income tax charitable deduction.
- The potential to avoid current capital gains taxes when you fund the trust with long-term appreciated property.
- A reduction in the value of your estate, which may avoid or reduce transfer taxes.
- A reduction of probate costs and estate taxes.

In addition to the tax and financial benefits, the charitable remainder trust is a very flexible life income plan. Still, the CRT is a good choice only if it fits in with your overall estate, tax and financial plans.

An Immediate Charitable Deduction

Subject to yearly limitations, our tax laws allow an immediate income tax deduction for a gift to a charitable remainder trust, even though income is to be paid to the donor (and/or other beneficiaries) for life. The exact amount of the charitable deduction depends on: (1) the value of the property transferred to the trust, (2) the amount of income benefits payable each year to individual beneficiaries, (3) the approximate length of time the income benefits will be paid, and (4) the prevailing interest rates at the time of the gift.

A Charitable Remainder Annuity Trust

This type of charitable remainder trust pays a fixed income to the donor (and/or other beneficiaries) each year for life, and then transfers the property to a qualified charity upon the death of the donor or other designated income beneficiary(ies).

Example: Ellen wants to make a gift that will supplement her retirement income. She transfers assets worth $300,000 to a charitable remainder trust and directs that an income of $15,000 a year be paid to her for as long as she lives. The trustee holds and invests the property during Ellen's lifetime and makes the required payments to her each year out of trust income or principal. Upon Ellen's death, the trustee will pay the remaining trust property to us.

The Charitable Remainder Unitrust

The charitable remainder unitrust provides income payments that vary with the annual value of the assets in the trust. If the value of the trust goes up, the annual payments go up. But the reverse is also true—the annual payments can decrease if the value of the trust decreases.

An additional benefit: unlike a charitable remainder annuity trust, a charitable remainder unitrust can accept additional contributions. So if your needs or plans change, you can add to the trust.

Otherwise, the unitrust is similar to an annuity trust. The donor can select individual beneficiaries, fix the percentage of value that will be paid to these beneficiaries, and direct the period of time during which income benefits will be paid. The donor can fund the trust with most kinds of property, select the trustee, and name one or more qualified charities to receive the trust property when income rights terminate.

Charitable Lead Trusts

The charitable lead trust is almost a mirror image of the charitable remainder trust. A charitable lead trust pays an annual income to a qualified charitable organization for a specified period of years, then pays the principal of the trust to non-charitable beneficiaries (often children or grandchildren).

A lead trust is a technique for making a temporary gift of income to a charity and eventually passing the property to individual beneficiaries. Because the value of the charitable interest is tax-deductible for gift and estate tax purposes, donors often use the lead trust to reduce transfer taxes while ultimately passing ownership to family members.

Example: Margo's will establishes a $1,000,000 lead trust which directs that the sum of $50,000 be paid to a charity each year for ten years after her death. At the end of ten years, the trustee will transfer all the trust assets to Margo's daughter. While Margo will not realize any income tax benefit for this trust, at her death her estate will be able to claim an estate tax charitable deduction for the present value of the charity's interest, even though her daughter ultimately is likely to receive a significant sum of money (especially when the property appreciates in value while held in trust). Just as importantly, Margo has the personal satisfaction of knowing she will provide $500,000 over a ten-year period to help support the causes she believes in.

Pooled Income Funds

A pooled income fund is a charitable trust that operates somewhat like a mutual fund. Under this arrangement, your gift is combined with those of other donors, and you receive an assigned number of units in the pooled income fund based on the amount of your gift. The fund then pays you a quarterly income (your pro rata share of the fund's income) based on the experience of the fund. You receive an income tax charitable deduction for the present value of our remainder interest.

The pooled income fund may appeal to middle-aged donors who wish to receive a variable income—one that can grow with the fund and possibly serve as a hedge against inflation. You can make additional contributions to the fund to gain further benefits for yourself and our institution. It's another way that you are rewarded for creating a charitable legacy.

GIFTS OF RETIREMENT ASSETS

More and more astute donors use retirement account assets in their charitable gift planning. The reason is that retirement account assets left to loved ones may be subject to higher taxation than other types of assets.

By using retirement account assets to fund your charitable bequest (and leaving different assets to family members) you may be able to reduce taxes that otherwise would be imposed on those assets and leave more to your intended beneficiaries.

Beneficiary Designations

Another way to plan a meaningful yet flexible gift is with a beneficiary designation of a life insurance policy, revocable trust or retirement plan. Making a charitable organization the beneficiary of a retirement plan and leaving other assets to loved ones can provide income tax relief for your heirs in addition to other potential estate tax savings.

We will be happy to help you explore the best way to include us in your plans. Whether you make a gift to us in your will or include us as a beneficiary of your retirement plan, remember that these arrangements are revocable. You maintain control over your property and you can make changes in your beneficiary designations should your needs or plans change.

While tax savings are usually confined to estate taxes, the potential savings can be tremendous in view of the severity of the estate tax. But, most important, you can direct your hard-earned assets to a charitable cause that you know can make a difference.

Outright Gifts of Real Estate

When you give appreciated real estate to charity, you completely avoid capital gains taxes while deducting the full fair market value of the property as a charitable contribution (assuming that the real estate has been held long-term and you are not in the business of buying and selling real estate).

Giving a Fractional Interest in Real Estate

Federal tax laws permit a charitable deduction for gifts of fractional interests in real estate. This type of gift can be especially rewarding if you own a vacation home that you use for only part of the year.

Example: Mary and Jim own a $300,000 vacation home that they use in July and August in Michigan. They can give us a 50% interest in the property, secure a tax deduction for the value of our interest in the property, and still have a right to use and occupy the property for up to half the year.

Gift of a Remainder Interest in a Personal Residence or Farm

A special provision of the tax law allows an immediate income tax charitable deduction for a gift of a remainder interest in your home or farm. You retain an absolute right to occupy the home or farm for your life (or the life of a family member). The property passes to us only after the end of the life estate.

The charitable deduction allowable for this future gift is the present value of our right to receive the property at some later date. The age of the life tenant is the primary factor in determining the present value of our deferred interest and the charitable deduction. The gift is deductible in the year of the transfer (subject to income limitations).

Gifts of Life Insurance

Many donors own life insurance policies they no longer need for family security or liquidity. A good example might be a policy acquired to ensure a child's education, when the child is now out of school.

When a donor gives a paid-up life insurance policy, the donor can deduct the cost to replace the policy with a single-premium policy. Or, if premiums remain to be paid on the policy, the fair market value is considered to be the interpolated terminal reserve (slightly less than the cash surrender value) plus unearned premiums. In either case, the donor can deduct either the replacement value or the cost basis (whichever is less).

Gifts of Closely Held Stock

A charitable gift of closely held stock presents a unique opportunity, especially if the closely held corporation has substantial accumulated profits. After the gift is complete, the corporation can buy back the stock and retire it, as long as there's no requirement for the charity to sell. Of course, the donor can deduct the fair market value of the closely held stock and there is no capital gains tax no matter how much the stock has appreciated in value.

Example: Henry owns 85% of the stock of a successful advertising business worth about $1,000,000. The corporation has substantial accumulated profits, but Henry would realize taxable income if these profits were distributed to him. Since his basis in the stock is zero, Henry is reluctant to subject $850,000 of appreciation to a capital gains tax rate as high as 23.8%.

Instead, Henry gives 5% of the corporate stock to us and deducts $50,000 as a charitable contribution. Later, the corporation buys the stock for $50,000 from our organization.

"In my 39.6% tax bracket, I gained $19,800 tax savings from the charitable deduction," Henry explains, "and I still own a controlling interest in the corporation."

Gifts of Tangible Personal Property

Antiques, paintings, collectibles, jewelry, and rare books are prime examples of tangible personal property that donors give to charity. The full fair market value of such assets is generally deductible provided the asset is used for our charitable exempt purpose. Otherwise, the deduction is limited to the donor's adjusted cost basis.

The maximum capital gains tax rate for most long-term appreciated assets is 20%, but the rate jumps to 28% on the sale of tangible personal property (collectibles). It is possible that a well-planned gift of a collectible may generate a larger capital gains tax savings compared to other long-term appreciated property, assuming, of course, it is used for our exempt purposes. Our staff can help you and your advisors plan your gift so that you don't inadvertently lose your maximum tax benefits.

IRA Charitable Rollover

A donor age 70 ½ or over who owns an IRA can make a gift using a direct transfer of funds from an IRA to charity. Transferred amounts count toward the required minimum distribution, but no tax is due on the distribution (up to $100,000). At any time during the year, the donor simply notifies the IRA custodian to make a direct transfer of the required distribution amount from the IRA to us. This is not only an easy way to give, but it can play a strategic role in the donor's annual planning and have an immediate impact.

A Final Word

In this introduction to planned giving options, one thing is plain—Congress has provided tax benefits that make charitable giving beneficial to the donor. There are many ways to give, so it is important to strategically plan so that you can do more for your favorite charities while providing income and enjoying tax reductions. As a result, you can experience the joy and satisfaction of making a gift that will benefit generations to come.

Tax information provided herein is not intended as tax or legal advice and cannot be relied on to avoid statutory penalties. Always check with your tax and financial advisors before implementing any gift.

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