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Planned Giving with Life Income Gifts

2017 UNC System Advancement Symposium

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Life Income Gifts?

A life income gift allows donors to give assets to your institution while providing themselves or others with income for a period of time.

Once the time period has expired, your institution is permitted to use the remainder of the gift.

Types of Life Income Gifts

- Charitable Remainder Trusts
  - Charitable Remainder Annuity Trusts (CRATS)
  - Charitable Remainder Unitrusts (CRUTS)
- Charitable Lead Trusts
- Charitable Gift Annuities
- Pooled Income Funds

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Types of Common Property Used to Fund Life Income Gifts

- Cash
- Appreciated Securities
  - Publicly Traded Stocks/Bonds
  - Closely Held Stock
- Real Property
- Business Interest

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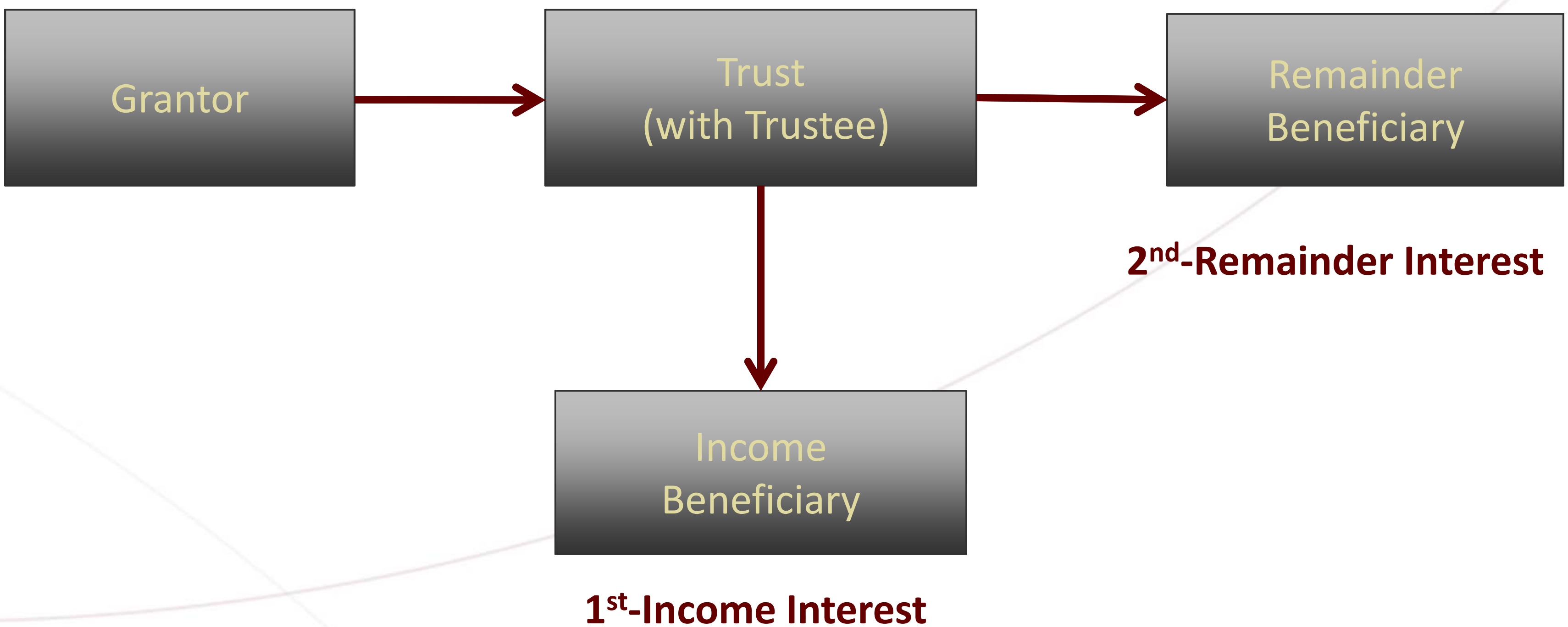
Charitable Remainder Trusts

- Allow the donor(s) to make a gift during life while retaining an income stream.
- Allow the donor(s) to realize both income and estate tax benefits.
- Ideal for transfer of highly-appreciated assets.
- Can be used for gifts of real property.
- Great estate planning tool.

Trust 101- the basic concept



Basic Concepts

- Trusts may be created during lifetime (**Inter-vivos**) or at death (**testamentary**).
- Trusts must pay out a **minimum of 5%** (same requirement as private foundations) and a **maximum of 50%.**

Charitable Remainder Annuity Trust

- Irrevocable transfer of asset to the trust.
- Trust pays income beneficiary(ies) a minimum of 5% of the **Initial** fair market value of the assets gifted to the trust (as determined by certified independent appraisal).
- No additional gifts to the trust are permitted.
- Grantor (donor) receives a charitable income tax deduction for the net present value of the calculated future gift interest to charity.
- At the end of the trust, the remainder passes to the charity as the gift.
- The asset is removed from the donor's estate and if appreciated assets are used, there is no capital gain tax assessed.

Charitable Remainder Unitrust

- Irrevocable transfer of asset to the trust.
- Trust pays income beneficiary(ies) a minimum of 5% of the **Annual** fair market value of the assets gifted to the trust.
- Annual payments are recalculated based on re-valued assets in the trust and additional contributions are allowable at any time and in any amount.
- Additional gifts to the trust are permitted, unlike with the CRAT.
- Grantor (donor) received a charitable income tax deduction.
- At the end of the trust, the remainder passes to charity as the gift.
- The asset is removed from the donor's estate and if appreciated assets are used, there is no capital gain tax assessed.

Types of CRUT's

- **SCRUT -** Standard Charitable Remainder Unitrust
- **NICRUT -** Income Only or Net Income Charitable Remainder Unitrust
- **NIMCRUT -** Net Income with Makeup Charitable Remainder Trust
- **FLIP CRUT -** FLIP Charitable Remainder Unitrust-benefit of the Taxpayer Relief Act of 1997

FLIP CRUT: A Versatile Addition

- Provided mechanism for one-time conversion to a Standard CRUT.
- Until the "triggering event," the trust pays out only the net income actually earned.
- Triggering event: a **date,** an **event**, or the **sale of an unmarketable asset** such as real estate, closely held stock, and unregistered (restricted) securities for which there is no exemption permitting public sale.

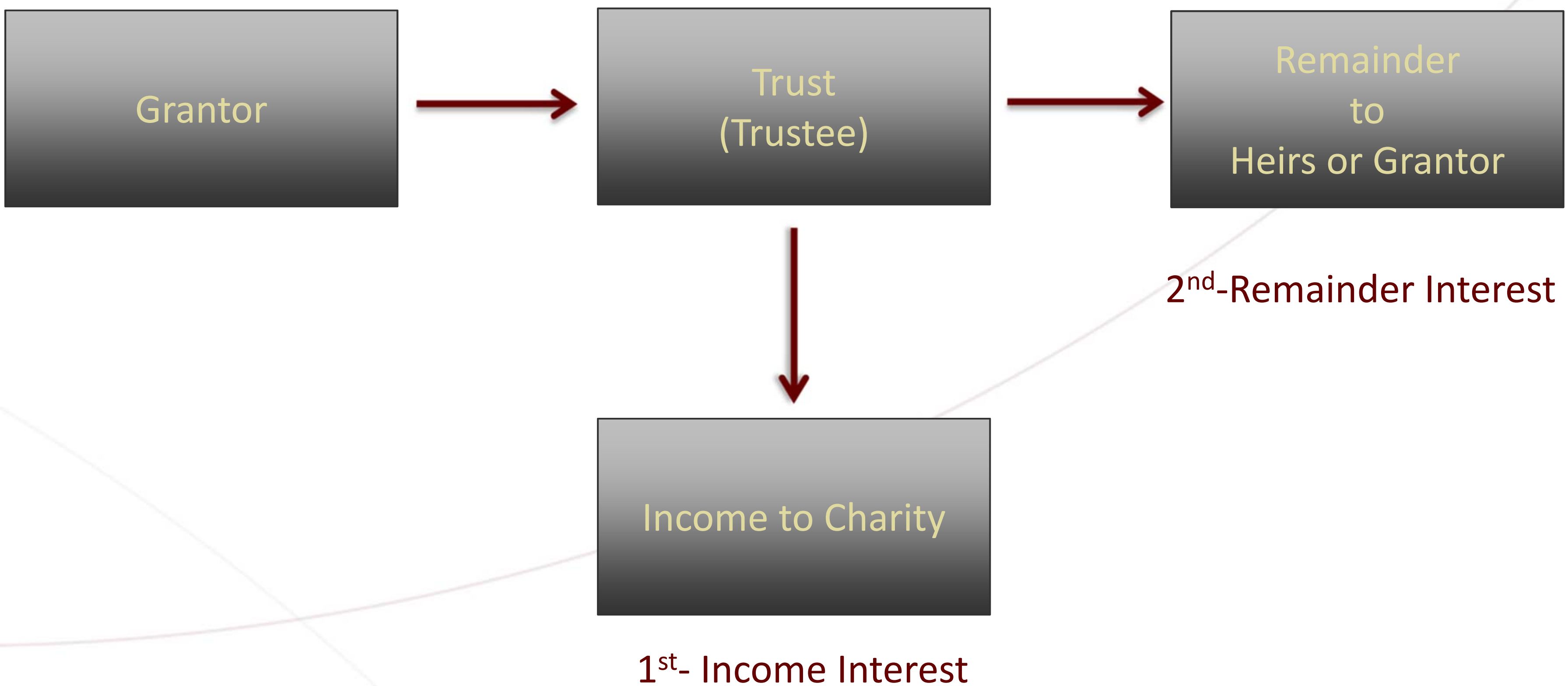
An Example of a Typical CRUT

- Mr. and Mrs. Donor (75 and 74) have appreciated stock worth $250,000 with a cost basis of $100,000. The stock pays a 1% dividend ($2,500).
- They want to endow a scholarship at a UNC institution, but need to retain income for retirement.
- They gift the stock to a 5% CRUT.
- Immediate $121,098 charitable income tax deduction.
- Estimated first year payment = $12,500.
- No tax on the $150,000 capital gain.
- Assuming an 7% annual total return, the couple will receive pre-tax payments estimated at $312,451 and $366,778 will remain in 20.7 years.

An Example of a Typical CRAT

- Mr. and Mrs. Donor (75 and 74) use the same stock worth $250,000 with a cost basis of $150,000. The stock pays a 1% dividend ($2,500).
- They gift the stock to a 5.35% CRAT that will pay them an annual amount of $13,735.
- They receive an immediate charitable income tax deduction of $86,443.
- If the trust earns a 6% average total return, the couple will receive $276,862.50 in lifetime payments and $301,679 will remain.

Charitable Lead Trust



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Charitable Gift Annuities

- A simple contract between the donor and the charity.
- The donor receives an immediate charitable income tax deduction and a secure income for life (rates set by American Council on Gift Annuities).
- Annuity payments normally consist of ordinary income and tax-free return, but may have some capital gain if appreciated assets are used to fund the gift.
- The residuum (remainder) is the charitable gift.
- Gift annuities can be immediate, deferred or flexible deferred.
- TRIVIA QUESTION: In what year was the 1st known CGA contract? ☺

Typical Charitable Gift Annuity

- Ms. Donor is 81 years of age and has a $50,000 CD paying 1.5% ($750).
- She does an immediate CGA with NC Gift Planning, LLC which pays a 7% annuity ($3,500 total annual payment).
- She receives a charitable deduction of $25,939.
- Her $3,500 payment consists of $766 of ordinary income and a tax-free portion of $2,734 for the next 8 years, then all $3,500 is ordinary income.
- If the average investment return is 7%, Ms. Donor will receive $28,000 in annuity payments and the residuum would be approximately $50,000.

Deferred Charitable Gift Annuity

- Mr. and Mrs. Donor are 62 and 60 and have inherited $50,000. They plan to retire in 7 years (69 and 67) to maximize Social Security income.
- They fund a deferred CGA with payments to start in 2024.
- The couple receives a charitable deduction of $16,178.50.
- The CGA will pay them 5.5% ($2,750) beginning in 2024.
- Assuming a more conservative 7% total return, the Donors will receive $60,500 in annuity payments (22.3 years) of which $1,232 is ordinary income and $1,518 is tax-free.
- Ultimately $197,676 could be left for scholarships.

Flexible Deferred CGA

- Mr. and Mrs. Donor decided they may want to defer receiving the income even beyond ages 69 and 67 so they choose a range of years until 2030 when they would be 75 and 73.
- While the charitable deduction is based on the **shortest** period, each year they defer receiving payments increases the annuity.
- If payments started in 2024, the annuity rate is 5.5%
- If payments started in 2026, the annuity rate is 6.1%
- If payments started in 2028, the annuity rate is 6.7%
- If payments started in 2030, the annuity rate is 7.4%

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American Council on Gift Annuities

2013 Survey of Charitable Gift Annuities

- 31% of charities reported that a donor who makes a gift annuity to their organization is likely to increase their annual giving
- 54% of charities reported that a donor who makes a gift annuity to their organization is likely to make a bequest to their organization
- Average Age of Immediate Payment Annuitant – 79 years
- Gender of Annuitants: 57% were Female / 47% were male
- Deferred gift annuity contracts has increased steadily since 1994
- Flexible deferred payment annuities have also increased to 31% from 21% in 2009 – annuitant can, at some later time, choose the payment starting date.
- 70% reported that on average 77% of annuities were funded with cash.
- 70% of annuities issued in 2013 were one life; 30% were for two lives

QUESTIONS??

We Are Here to Help!

- Our office at University of North Carolina- General Administration was created to help promote planned giving throughout the UNC system.
- We can provide resources and assistance in all aspects of gift planning.
- We are available to work with campus Advancement Teams to facilitate planned gifts.
- Our goal is to enhance private fundraising support for the entire UNC system.
- Increased philanthropy and strong endowments are key to our future.

Contact Us

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