

Bequests and Planned Giving

Why do less than 2% of Christians leave deferred gifts to their churches?

Studies report the two top answers are:

- **They have not been asked**
- **They don't know how!**

Today's seniors have more assets than any comparable generation in history. They also make up the core of the church's most loyal members.

But most procrastinate about estate planning. They don't want to think about death, or feel they aren't "rich" enough to need a plan. So they delay such decisions indefinitely, and the very churches that have been so important to them go wanting.

With some foresight, people can help themselves, their families, and their churches.

Planned giving can provide:

- More life-long income for donors
- Immediate income-tax deductions to keep more money in hand
- Reduced capital-gains tax
- Reduction or elimination of inheritance taxes
- A way to make a truly significant gift to the church

Introduction to Bequests and Planned Giving

Bequests

The simplest form of the planned gift is the *bequest*, which is a provision in one's will bequeathing something to an individual or organization. Bequests may be for a specific dollar amount or a percentage of one's estate. Bequests may also be residual, meaning that a legacy will be provided only if assets remain after other specific legatees (and estate-related expenses) have been provided for, or contingent, meaning that a beneficiary will only receive a legacy if all other heirs have died. Other options include a *testamentary trust*, which provides one's heirs with income for their lives, after which the assets go to a philanthropic organization like a church; and the *testamentary QTIP*, in which income (and, if needed, principal) is paid to one's spouse during his or her lifetime, with the remaining principal going to a charity at the spouse's death. Bequests are revocable, meaning that as circumstances or interests change, one may change one's will to amend or eliminate an estate provision.

Planned Gifts

Planned-giving donors have a number of options. They may establish an **annuity**, which is a simple contract between the donor and St. Columba's. The donor will give cash or securities for the benefit of St. Columba's, and in return receive a fixed amount of income for life. Upon the death of the donor (and, if he or she chooses, a spouse), the principal of the gift will go to the beneficiary. A St. Columba's annuity may be funded with a gift of \$1,000 or more. For donors who do not need immediate income, a **deferred gift annuity** is available; with the D.G.A., the donor defers income payments to a date in the future. The benefit of this kind of annuity is a higher payment and larger tax deduction.

Another option is the **charitable remainder trust**. C.R.T.'s come in two varieties: the unitrust and the annuity trust. A **unitrust** pays a fixed percentage of income and is revalued annually. If the trust grows in value, the payments to the beneficiaries will increase, too. Donors have the option of adding to a unitrust over time. An **annuity trust** pays income just like a gift annuity: a fixed dollar amount is set when the gift is made. Many donors find the annuity trust an attractive option since it provides a guaranteed income while leaving an ultimately larger legacy for the charitable remainderman. Trusts may be funded with cash, securities, and other liquid assets, such as a vacation home. The minimum gift for a St. Columba's trust is \$50,000.

The **pooled income fund** is a planned gift that works like a mutual fund. The donor's gift goes into a trust; it is pooled with other gifts, all of which are managed according to a particular investment strategy (e.g., balanced growth, value-oriented, international equities, etc.). Donors, or their designated beneficiaries, receive a share of income based on their share of the pool. At the death of the income recipient, the principal goes to the charitable organization.

Two other options are the **charitable lead trust** and the **retained life estate**. With a charitable lead trust, a donor transfers assets to a trustee. The trustee will pay an annual sum to a designated charity for a specific number of years (the usual term falls between 10-25 years). At the end of the trust's life, the principal plus any appreciation will go to the donor's designated beneficiaries (usually children or grandchildren).

Donors to charitable lead trusts receive a federal estate-tax deduction equal to the estimated value of the annual trust payments to the charity. One of the nice features of a C.L.T. is that any appreciation in the assets during the term of the trust will not be subject to additional estate tax, meaning more money for the eventual heirs.

Do you have a home but no heirs, or heirs who will not need the property? If so, you can put this property to work to support St. Columba's by donating it to the church while retaining the right to use it! This gift, called the retained life estate, will yield a charitable deduction for a portion of the appraised value (which must be determined by an independent appraiser). You will remain responsible for all taxes and property maintenance. At the end of the life estate, your property will be sold, with the proceeds going to support St. Columba's.

Gift Annuity Illustration

Examples of rates and deductions for a gift of \$10,000

Charitable Gift Annuity

	Age of Beneficiary	Payout Rate (%)	Annual Income	Charitable Deduction
One Life	60	5.7	570	3,105
	70	6.5	650	3,951
	75	7.1	710	4,432
	80	8.0	800	4,905
Two Lives	65&60	5.5	550	2,416
	70&65	5.7	570	2,914
	75&70	6.1	610	3,336

Deferred Gift Annuity

Age of Beneficiary	Deferral Period (yrs)	Payout Rate (%)	Annual Income	Charitable Deduction
55	10	9.7	970	4,103
	5	7.2	720	3,490
70	10	12.9	1,290	6,672
	5	9.0	900	5,316

IRS discount rate used for this example is 5%. This figure changes monthly and will affect the donor's charitable deduction.

Donors of appreciated securities or other property will enjoy delayed and reduced capital gains.

Unitrust Illustration

Examples of rates and deductions for a gift of \$50,000

	Age of Beneficiary	Payout Rate (%)	First year Income	Charitable Deduction
One Life	60	5.0	2,500	20,012
	70	5.0	2,500	26,884
Two Lives	60&55	5.0	2,500	12,916
	70&65	5.0	2,500	19,169

IRS Discount rate for this example is 5%. This figure changes monthly and will affect donor's charitable deduction.

Philanthropy and Taxes

Most people make a planned gift to their church or a church-related organization because they believe that this is part of their vocation as Christians. This is part of being a good steward. However, in addition to strengthening the ministry of the church, individuals may enjoy other benefits when they make a gift.

The most familiar benefit of making a planned gift is the one that is available to those who make any kind of gift: the charitable deduction. For gifts of cash, you may use your deduction for up to 50% of your adjusted gross income (A.G.I.), whereas for gifts of appreciated assets like stocks, the figure is 30%. If you can't make use of the full available amount of your deduction in the year of your gift, you need not worry – you will be able to “carry over” the balance of your deduction for up to five additional tax years.

Another benefit is the ability to take assets with low-income streams, like stock dividends, and through your planned gift, convert them into something with a higher-income stream, some of which may be tax-free.

In planning your philanthropy, you should be aware of tax law. In 2001, the U.S. Congress passed the Economic Growth and Tax Relief Reconciliation Act (EGTRA). This legislation stipulated a number of significant changes in income and estate taxes for the years 2001-2010. The Act is currently set to expire in 2011, unless Congress chooses to renew all or part of the legislation.

Individual Income Tax Rate Reductions

The Act contains a new 10% rate for a portion of taxable income that is currently taxed at 15%. This rate became effective in tax year 2001.

The tax rates have been decreased over the last six years. The rates are summarized as follows:

Pre EGRTRA	28%	31%	36%	39.6%
2001	27.5	30.5	35.5	39.1
2002-3	27	30	35	38.6
2004-5	26	29	36	37.6
2006+	25%	28%	33%	35%

Retirement Savings Provisions

Beginning in 2002, the annual limit for employee contributions to a 401(k) or 403(b) plan was increased from \$10,500 to \$11,000. Allowable contributions increased by \$1,000 per year until the ceiling of \$15,000 was reached in 2006.

The annual IRA contribution limit was increased from \$2,000 to \$3,000 for 2002-2004; to \$4,000 for 2005-2007; and \$5,000 beginning in 2008.

If you are a tax payer aged 50 or older, the 401(k)/403(b) and IRA contribution limits are even higher. The 401(k)/403(b) elective deferral limits were increased by an additional \$1,000 per year beginning in 2002, until \$5,000 was reached in 2006. These additional contributions may be made regardless of any other limit applicable to these plans. The IRA limit is further increased by \$500 for the years 2002-2005, and then \$1,000 in 2006 and thereafter.

Estate, Gift, and Generation-Skipping Transfer (G.S.T.) Tax Provision

Estate and gift tax rates and unified credit exemption (the amount an individual can transfer to heirs free of estate tax) were also changed as a result of the legislation.

<u>Year</u>	<u>Estate & GST tax Deathtime transfer exemption</u>	<u>Maximum estate and gift tax rates</u>
-------------	--	--

2006	\$2,000,000	46%
2007	\$2,000,000	45%
2008	\$2,000,000	45%
2009	\$3,500,000	45%
2010	not applicable	Estate tax repealed; 35% for gift tax

Gift taxes are not repealed, so that gifts to individuals during your lifetime above a total of \$1,000,000 will be subjected to tax.

Finally, in 2010, the repeal of the estate tax will be accompanied by the repeal of the “step up basis provision.” At present, when appreciated property like stocks and real estate is inherited, the cost basis is “stepped up” to the fair market value at the time of death. (E.g., a stock purchase at \$1/share that at the time of death is trading at \$25/share is “stepped up” in value – your heirs pay no capital gains taxes on the \$24 appreciation in value.) Usually no capital gains tax is owed on the sale of that property. This will change in 2010; since there will not be a full “step up,” capital gains taxes may be owed when the heirs choose to sell the appreciated assets they received via the will. (Note: Appreciated property passing to a surviving spouse will be stepped up as much as \$4,300,000; property passing to children will be stepped up by as much as \$1,300,000.)

If you are considering a charitable gift to St. Columba’s, or would like to know more, we suggest you contact your financial planner. He or she can tailor a plan to meet your specific needs and wishes.

John Finn is the planned-giving contact on the stewardship committee, and is available for questions.

John M. Finn
 Financial Consultant
 401-848-4579
 E-mail john.Finn@lpl.com
 Website www.lpl.com/island.lpl
 Securities offered through LPL Financial
 Member FINRA/ SIPC
 294 Valley Rd.
 Middletown, RI 02842