# GIFT PLANNING IN THE NEW ENVIRONMENT

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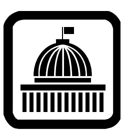
## Americans are Philanthropic

We give more to charity than almost any other country

- Community
- Interdependent
- Culture
- Tradition
- Religion

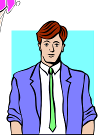
## What influences giving?

- Personal traditions & expectations
- Involvement – volunteer
- Economy
- Investments
- Legislation
- Tax rules



## IT IS A DIFFERENT WORLD

## IN A TIME LONG AGO

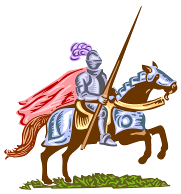


- Planned gifts were solely the province of the nonprofit world.
- Bequests were a key planning tool.
- Gift annuities had been around since the 1840s.
- 1969 introduced charitable trusts as we know them.

## IN A TIME LONG AGO

- Federal income tax rates were as high as 90%.
- Capital gains tax rates were 28%. (Some states imposed additional taxes.)
- Unified credit amount for estate & gift taxes was $600,000.

## THEN CAME THE BARBARIANS



- Tax reform legislation made planned gifts effective planning tools.
- Financial advisors became players in the planned giving arena.
- Some changes (10% PV rule) have oriented planned gifts to donors age 60 & older.

## IMPACT OF THE ECONOMY

- Uncertainty of economy is causing donors to reconsider major charitable gifts. 68% of Americans said they would give more sparingly to charity in last quarter of 2011.
- Top 3 factors affecting donors willingness to give:
  1) Reduced income.
  2) Rising cost of living expenses.
  3) Uncertainty over economy.
- 95% of those who regularly attend religious services plan to continue giving.

## FINANICAL ADVISORS REPORT MORE DONOR UNCERTAINTY

- Current flat economy with ups & downs is likely to continue for next 3-7 years.
- Aggressive clients with stock portfolios may have seen their assets decline 25-40% in 2011. 2012 has been a much better year – will it translate into more philanthropy?
- Retired clients are moving assets to cash or fixed income investments.
- Clients are hesitant to make significant moves.

## Federal Taxes - What Was

- Bush era tax legislation was set to sunset – rates were to revert those in place in 2000.
- 2010 income tax rates were from 10% to 35%.
- 2000 rates started at 15% and went up to 39.6%.
- Capital gains tax rate would rise from 15% to 20%.

## Estate Taxes – What Was


| Year | Exemption Amount | Highest Tax Rate |
|---|---|---|
| Ancient | $600,000 | 55% |
| 2002 | $1,000,000 | 50% |
| 2004 | $1,500,000 | 48% |
| 2006 | $2,000,000 | 46% |
| 2008 | $2,000,000 | 48% |
| 2009 | $3,500,000 | 45% |
| 2010 | No tax | |
| 2011 | $1,000,000 | 55% |

## Tax Relief Act of 2010

- Change was in the wind – election of November 2010.
- President under fire with a new Congress coming in 2011.
- Meeting at the White House on 12/10/2010.
- Legislation passed 12/17/2010

## Result of Tax Relief Act of 2010

Beyond Everyone's Wildest Expectations

## Tax Relief Act of 2010

- **Exemption amount of $5,000,000.**
- Unified exemption amount applies to gift tax and GST tax.
- Portability for husband & wife.
- Top tax rate is 35%.
- Exemptions indexed for inflation.
- Rates good for 2011 & 2012 only.

## Tax Relief Act of 2010

- Marital deduction – unlimited deduction for transfers to surviving spouse.
- Charitable deduction – unlimited charitable deductions for both lifetime and testamentary charitable transfers.

## What happens now?

- If no action, rates revert to those in place in 2000.
- **Estate tax exemption amount returns to $1,000,000.**
- Income tax rates increase for all taxpayers.
- Capital gains tax rate would rise from 15% to 20%.

## What happens now? It is 2010 again!

Tax rates & policies will be decided by the November election.

Who controls Congress & the White House will determine future tax strategies.

## Washington & Oregon Estate Tax

- About ½ of states have some form of estate tax, but generally no gift tax.
- Oregon exemption amount of $1,000,000.
- Washington exemption amount of $2,000,000.
- Not indexed for inflation.
- Oregon tax rate varies from 4.8% - 16%.
- Washington tax rate varies from 10 – 19%.

## GIFT TAXES

- Exclusions for education and medical expenses paid directly to school or provider.
- Annual exclusion of $13,000 per recipient per year to anyone.
- Gifts taxed at highest rate.
- Can charge against unified credit amount.

## GIFT TAX vs ESTATE TAX

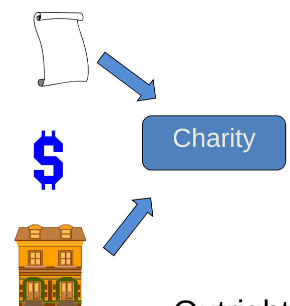
- Gift tax is an exclusive tax.
- Estate tax is an inclusive tax.

Example: a taxable gift of $100,000 at a gift tax rate of 35% incurs a tax of $35,000. Same amount through will requires $200,000 -$70,000 to pay estate tax on the $200,000 leaving $130,000 for heirs.

## Generation Skipping Transfer Tax GST

- Prevent avoidance of taxes by making transfers to younger generation.
- Tax rate imposed is highest regular rate under gift and estate tax schedule – no graduated rate. Current rate is 35%
- $5 million cumulative exemption for every grantor.

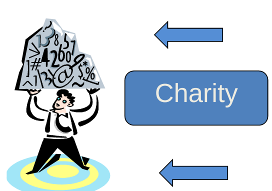
## Gift Exchange




- Sense of doing good
- Help a cause
- Recognition
- Personal fulfillment
- Tax deduction
- Legacy

Outright Gifts

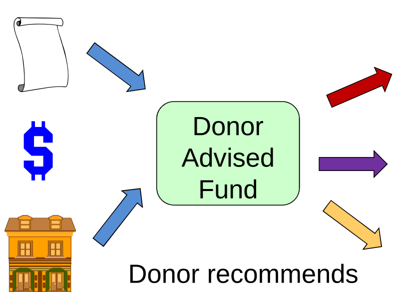
## Gift Exchange

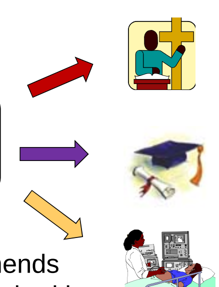



- Asset is gone
- Irrevocable
- Loss of control
- Loss of future benefit
- No longer managing the assets

Outright Gifts

## Staying Involved with the Gift



Donor recommends investments & charities

Which is the best gift?

Best gift is one that meets the needs & desires of the donor & is compatible with the needs, program, direction & capabilities of the charity.

Planned giving is the integration of sound personal, financial, and estate planning concepts with the individual donor's plan for lifetime or testamentary giving.

Gifts that involve more than writing a check.

DEFERRED GIFTS

Charity's benefit deferred, donor benefits immediately in some way.

LIFE INCOME GIFT PLANS

Provide an come for the donor for life or for a term of years.

PLANNED GIFTS

are

SPLIT INTEREST GIFTS

Income Interest

Remainder Interest

Charitable Remainder Trust

Income Interest

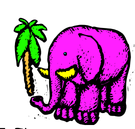
Remainder Interest

People Donors or Others

Charity

REASONS FOR MAKING A SIGNIFICANT GIFT

1 Provide support for charities that are meaningful to you - the donor.



## REASONS FOR MAKING A SIGNIFICANT GIFT

1 Provide support for charities that are meaningful to you - the donor.


Ruth lived in a coastal town.
In order to have laser eye surgery people had to travel across the mountains.
She was instrumental in purchasing an optical laser for the local hospital.

## REASONS FOR MAKING A SIGNIFICANT GIFT

2 Leave a legacy for future generations.

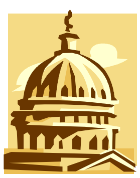
Camilla was a widow of 90 years who had lived in the same town her entire life.
Husband died 35 years ago.
Financial advisor encouraged her to start a scholarship fund.
Each year she awarded scholarships to graduating seniors of local high school.

## REASONS FOR MAKING A SIGNIFICANT GIFT

3 Receive significant tax savings.

Income tax savings

Capital gains tax savings



Government has encouraged support of nonprofits through tax deductions.

CHANGES MAY BE UNDERWAY

## Gift Comparison

| | **Give stock outright** | **Give cash** | **Sell stock & then make gift** |
|---|---|---|---|
| **Gift value** | $20,000 | $20,000 | $20,000 |
| **Income tax savings** | Gift value x tax rate | Gift value x tax rate | Gift value x tax rate |
| **Capital gain tax** | Not payable by donor | N/A | Payable by donor |
| **Total tax savings** | Income tax savings + capital gain tax savings | Income tax savings | Income tax savings – capital gain tax paid |

## REASONS FOR MAKING A SIGNIFICANT GIFT

3 Receive significant tax savings.

- Estate tax savings

Estate taxes have changed dramatically – at least for 2011 & 2012.

Tax avoidance should not be the primary motivation for philanthropy – but it is a factor.

## REASONS FOR MAKING A SIGNIFICANT GIFT

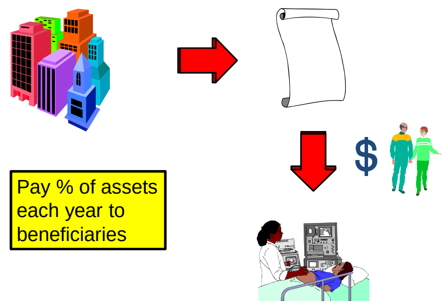
4 Increase your spendable income.

It is possible to give away your assets, and increase your spendable income.

## Charitable Remainder Unitrust
## Variable Payment Trust

An irrevocable trust that provides an income for the donor(s) life or up to 20 years. Unitrust provides a variable income based on a percentage of the annual value of the trust assets as determined each year.

## Unitrust - Variable Payment




## Beachfront Lot

Jim & Bonnie, ages 62, 62 bought undeveloped lot in 1970 for $15,000 & planned to build their retirement home on the property.

Property value is now $250,000 & they have decided not to build on the property.

What are their options?

How can a charitable gift plan be used?

## Jim & Bonnie Example

- FLIP - Standard Unitrust with payout rate of 6.0%.
- Tax deduction of $59,588.
- Trust investment return -- 8%

  (2% ordinary income, 6% capital gain)

## Jim & Bonnie Example

Gross Annual Income (before tax)

| | |
|---|---|
| Year 5 | $ 14,914 |
| Year 10 | $ 14,771 |
| Year 15 | $ 14,627 |
| Year 20 | $ 14,482 |
| Year 25 | $ 14,337 |
| Anticipated | |
| Total Return | $394,904 |

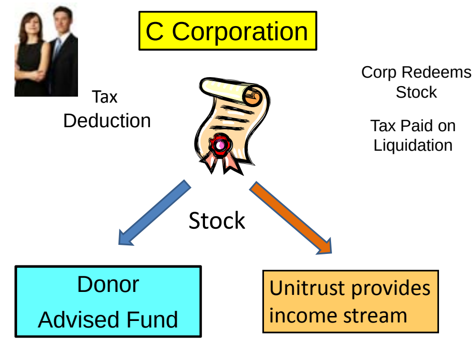
## Using Charitable Techniques to Liquidate a Business

- Jim & Nancy owned a business that they had built up over time.
- C corporation owned the business.
- Sold the assets of the business.
- Still own the stock of the corporation.

## Planning Goals

- Create means of supporting charities.
- Promote philanthropy among family.
- Create an income stream for retirement that might also benefit children.

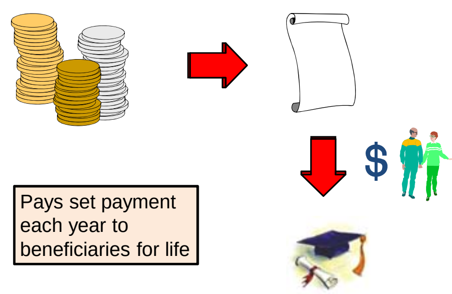
Gift of Corporate Stock & Liquidation of Corporation




Charitable Gift Annuity
Fixed Payment Contract

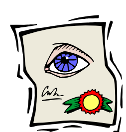
A contract with a charity that provides fixed payments for the life of one or two annuitants.

## Gift Annuity - Fixed Payment




## Gift Annuity Rates

| One Life | | Two Life | |
|---|---|---|---|
| 65 | 4.7% | 65,65 | 4.2% |
| 70 | 5.1% | 70,70 | 4.6% |
| 75 | 5.8% | 75,75 | 5.0% |
| 80 | 6.8% | 80,80 | 5.7% |
| 85 | 7.8% | 85,85 | 6.7% |
| 90 | 9.0% | 90,90 | 8.2% |



More Income from
Old Insurance Policy

Leon and Annie, ages 86, 87 are retired. Leon was a school administrator.

In 1950 Leon purchased a whole life insurance policy for $5,811
(total of premium payments).

Policy now has a cash value of $23,006.

Policy is not providing income.

## Policy > Gift Annuity

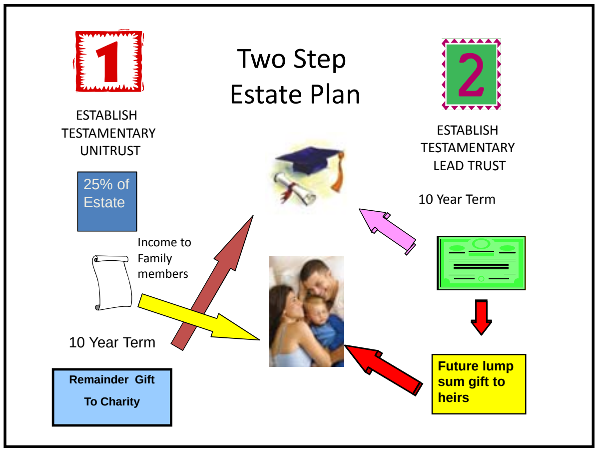
| | |
|---|---|
| Leon & Annie | Ages 86, 87 |
| Amount of gift | $23,006 |
| Payout rate | 8.2% |
| Annual payout | $ 1,887 |
| Cap gain $1,362 | Ordinary Taxable $525 |
| Lifetime payouts | $16,795 |
| Income tax deduction | $11,156 |

## REASONS FOR MAKING A SIGNIFICANT GIFT

5 Solve Estate Planning Challenges

Bob & Louise have two grown children
Kathy & Larry

They want to provide for children from estate, however they are not sure they can handle a large amount of money.




## How is charitable giving different Now?

- Donors are more motivated to do something where their heart is.
- Donors want to know their gifts are making an impact and being used efficiently.
- Donors exercise more care in how they make gifts – assets to give and timing of gifts.
- Donors want to have flexibility in what they can do – Donor Advised Funds used more.
- Donors want a return on assets held long-term – planned gifts offer advantages.
- Tax avoidance is less a motive for doing philanthropy.