University of Massachusetts Amherst

Gift Planning 101

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Authors	Mattson, Mike
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Gift Planning 101

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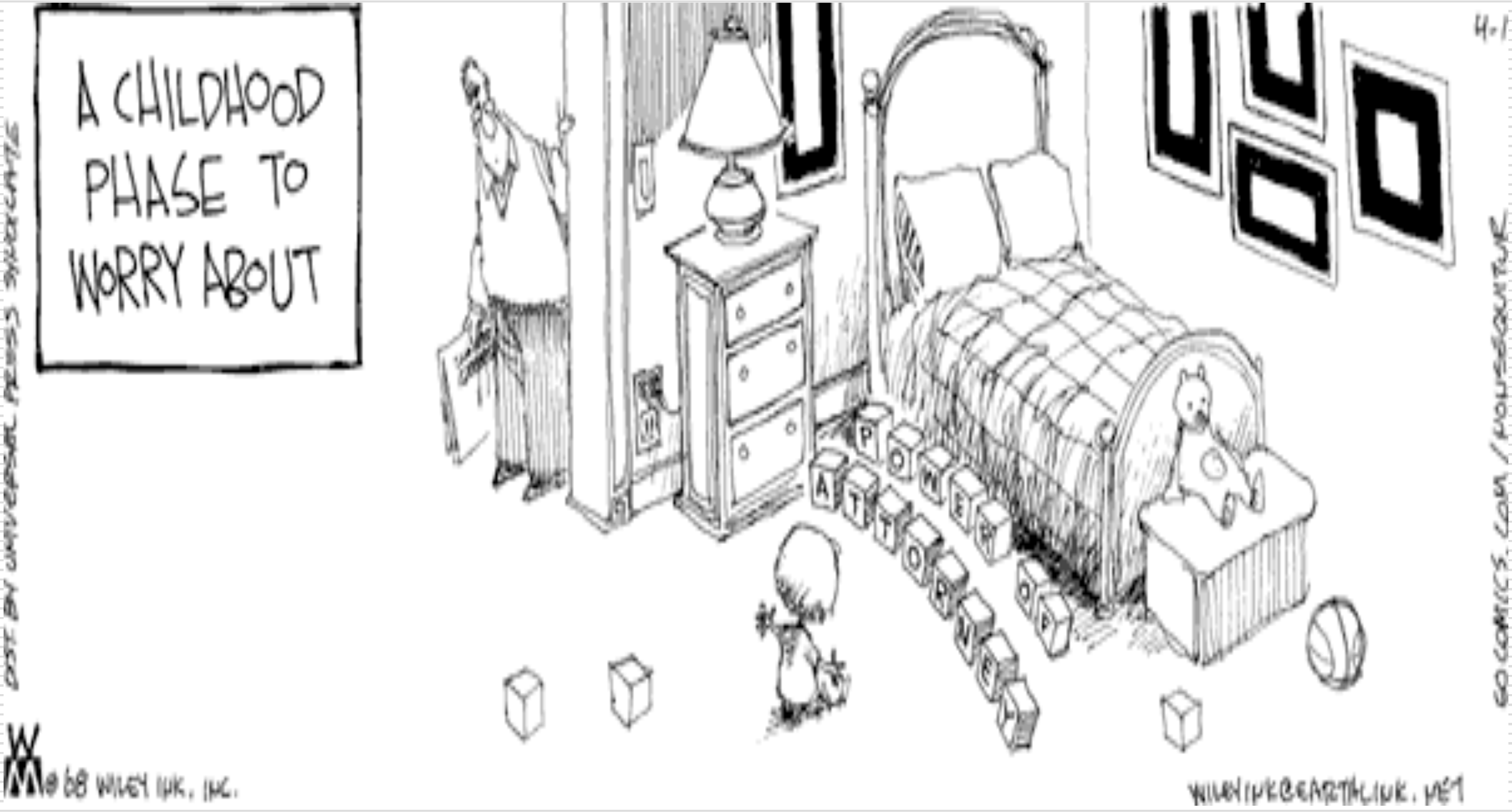
Mike Mattson

Gift planning officer



What is a planned gift?

- “A planned gift is any gift that combines conscientious decisions about how much to give, to whom to give it, and when to give it. As such, virtually all giving, from all people, at all times is planned giving. And the corollary: all development professionals are planned giving officers.” Paul Schervish, Boston College, January 2004

What is planned giving and why is it important?

- A creative way to make a gift.
- A way to make larger gifts then ever thought possible.
- A way to achieve significant philanthropic & financial objectives.
- A way to insure the longevity and future financial needs of your organization.

It’s not all deferred . . .

- The Three-legged Stool
  - Annual fund commitment
  - Significant capital gift
    - Endowment for ?? (scholarships, faculty support, etc.)
    - Building projects
  - Testamentary gift
    - Bequest
    - Beneficiary designation

A planned giving donor profile

- Has philanthropic intent
- Most are older (we <u>used</u> to say 55+)
- Long-time supporter
- Few or no dependents
- May desire tax benefits (either income or estate tax)
- May be wanting to use appreciated assets to make a gift or to provide increased income

Intergenerational transfer

"As those born in the early 20th century pass away, unprecedented amounts of wealth accumulated in post-World War II America will pass to younger generations…Estimates are that wealth totaling as much as $125 trillion will be changing hands."

Wealth transfer

All of the wealth transferred will ultimately be received by four groups:

- Family members and other loved ones.
- Federal and /or state government.
- Financial services/health care providers
- Charitable entities.

When Donors Consider Making Planned Gifts

- Personal timing/circumstances
  - Desire to make a campaign gift?
  - Assets no longer needed (life insurance policy, second home)
  - Selling the company.
  - Converting long-term assets to cash.
- Need to create a valid will
- Need to review and revise a will
- Death of a spouse
- Death of a friend
- Family or health issues

Starting the conversation

- Tell me about . . .
- Describe . . .
- How do you . . .
- When do you . . .
- How is it that you . . .

Listen more than you talk!!!!!

Turning cultivation into support

- Bring the prospect to the point where asking for a gift makes sense. Don't FORGET to ask!
- You may have become the prospect's friend. Don't FORGET to ask!
- You talk too much!!! Listen more than you talk.
- Have a strategy for the prospect.
- Use a written proposal.
- Give a "deadline" or date to respond.
- Make sure you're the right person to make the ask.
- Solicit the correct person.
  - Who makes the decision?
  - Should other family members be involved?
  - Should advisors be involved?

If at first you don’t succeed . . .

- Was the prospect solicited by the right person?
- Was the prospect ready to be asked?
  - Did she/he know/trust you?
  - Did she/he understand the case for support?
- Was the request appropriate?
  - Timing? Amount?
- Is the door still open for a future ask?

Again . . . what is a Planned Gift?

- Outright gift – cash, securities, tangible personal property, real estate
- Bequests – donor uses the asset during his lifetime, then passes to charity
- Life Income – donor makes the gift today and received a stream of income

IRA Rollover Gift

- Donor must be 70 ½ years of age when gift is made
- Gift must be a direct transfer from an IRA to a 501 c(3). Other qualified plans (Keogh, 401(k), 403(b) may not be used)
- Donor may transfer up to $100,000 annually and gift counts as Required Minimum Distribution (RMD)
- Transfer is not counted as income, nor is an income tax deduction taken.

Deferred Gift of Retirement Assets

- Appropriate for: Individuals with IRA’s, Keoghs, 401(k)’s, 403(b)’s, etc.
- Tax Treatment: Gift is excluded from estate, inheritance and deferred income tax liabilities. Many people are unaware that the combination of taxes on tax deferred assets may easily exceed 70%.
- Transferred by beneficiary designation

Cash Gifts

- Appropriate for: Everyone.
- Tax Treatment: Fully deductible for itemizers (up to 50% of adjusted gross income). Excess may be carried forward for five additional years.
- Potential Issues: Certain high-income taxpayers may have this deduction phased out.

Appreciated Assets

- Appropriate for: People with highly appreciated securities, real estate or closely held stock.
- Tax Treatment: Full fair market value of asset is deductible (up to 30% of adjusted gross income). Excess can be carried forward five more years. No capital gains tax paid on appreciation.
- Potential Issues:
  - Gift MUST be made to charity *prior to sale* of asset.
  - Long-term (capital gain) vs. short term (regular income)

Other Non Cash Gifts

- Appropriate for: People wishing to donate personal and real property.
- Tax Treatment: Fully deductible up to appraised value (Form 8283 filed with return). Items valued at over $5,000 MUST have an independent appraisal.
- Potential Issues: If asset is sold within two years of receipt by institution, Form 8282 must be filed. Potential problem for donor if sold under appraised value.

Real Property

- Full or undivided fractional interest
- Environmental issues
- Marketability/Carrying costs
- Buyer in the wings
- Bargain sale
- Retained life estate

Bequests

- Appropriate for: Anyone with a will or trust.
- Tax Treatment: Gifts identified are excluded from federal estate and state inheritance taxes.
- Potential issues: Recipients MUST be qualified charities and gifts fully discernable.

Wills/Bequests

- Easy to do – often largest gifts
- Types
  - Specific
  - Residuary
  - Contingent
  - Testamentary trust
- Removes assets from estate

Life Income Gifts

- Charitable Gift Annuities
  - Current
  - Deferred
- Charitable Remainder Trusts
  - Unitrust
  - Annuity Trust

Charitable Gift Annuities

- <u>Appropriate for</u>: Older individuals wishing "higher rate" of return on investments.
- <u>Tax Treatment</u>: Current charitable deduction received for portion of gift based on life expectancy of donor. No capital gain on transfer of assets.
- <u>Potential issues</u>: Gifted asset value must be segregated. Tax free income ends when donor attains life expectancy.

Current Gift Annuities

Benefits

- Immediate income tax deduction
- Preferential capital gain treatment
- Attractive rates of return
- Fixed income
- Removes assets from estate
- State regulations vary

Deferred Gift Annuities

Benefits

- Same benefits of current gift annuity plus…
- Payments start when contract stipulates
- Higher payout and deduction since payment deferred – based on original gift amount
- Used for retirement income

Charitable Remainder Trusts

- Appropriate for: Individuals with large taxable estates wishing to preserve an income stream to someone for life or term of years with remainder of trust passing to organization.
- Tax Treatment: Charitable deduction based on term of the life interest AND percentage passing to income beneficiaries.
- Potential Issues: Trusts are considered separate taxpayers and must be managed and invested individually.

Charitable Remainder Trusts

Benefits

- Immediate income tax deduction
- Avoids capital gain tax on transfer
- Income for life <u>or</u> term of years
- Removes assets from estate
- Several different types

Life Insurance

- Appropriate for: People with existing policies which are no longer required to meet planning needs OR people wishing to take out a new policy which will result in a significant gift at death.
- Tax Treatment: Current deductions provided for "cash surrender value" of existing policies or premium payments for new policies.
- Potential Issues: Make sure state recognizes "charity" as "insurable interest."

Gifts of Life insurance

For gift credit

Your organization

<u>must</u> be both the owner

and beneficiary of the

policy.

- Donate a paid up policy
- Donate a partially paid up policy and continue to pay premiums
- Use insurance to replace asset given given to Syracuse University