

# Making a Difference



**Create your legacy...**  
become a member of the  
Mary Ross Reed Society

Gift Planning Topic:  
**Other Gift Options**



## You Can Make a Difference

Big donations tend to make the news. Fortunately, gifts that don't make the news still make a big difference. Millions of dollars can certainly change lives, but you can make an important impact on a meaningful mission with much less.

Consider Elaine Adams. She taught math for over fifty years, from elementary school up through high school. She believed in the importance of community and inspiring the leaders of tomorrow. Elaine made a \$50,000 gift to help start a charitable fund, taking advantage of a matching gift to double her impact. She regularly supported various schools and community foundations during her lifetime, and when she passed at the age of 98, her will contained gifts to more than 20 nonprofits.

Are you interested in leaving a lasting legacy of support for us and other organizations that are meaningful to you? By making a gift, you can:

- Help shape the future, perhaps for generations to come
- Take advantage of the financial and estate planning benefits associated with the gift
- Experience the joy and satisfaction that come from giving back

There are many gift opportunities, from the simple to the complex. As you consider ways to support our mission, let us help you discover the strategies that fit best with your personal circumstances 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 if you itemize.

The income tax charitable deduction cannot exceed 60% of adjusted gross income (AGI) in the year of the gift. However, any excess can be carried over and deducted for a period of up to five years until it is used up.

## Gifts of Marketable Securities

A gift of appreciated stock (held for more than one year) can play an important role in financial and philanthropic planning. Under the right circumstances, giving appreciated stock can allow you to make a significant contribution without affecting cash flow.

Gifts of securities can be made quickly and easily, and the tax benefits affecting both income and capital gains dramatically increase the impact of these gifts. Any gift of stock qualifies for an immediate income tax deduction for the full fair market value, even if the stock was purchased for substantially less. In a sale of appreciated stock, such a gain would incur the capital gains tax, but by gifting the stock, no tax is due, no matter the amount of the appreciation.

If you itemize, the charitable deduction for a gift of long-term appreciated securities cannot exceed 30% of adjusted gross income in the year of the gift. Any excess over this limit may be carried over and deducted for a period of up to five years.

## Gifts in Your Will

Making a gift to charity in your will is simple and it lets you retain full use of the property during your lifetime. There is no immediate out-of-pocket cost—you simply direct that when you die, part of your estate will go to one or more of your favorite charities. You have complete control—if your goals or circumstances change, it's easy to change the gift.

Since a gift in your will can take many forms, you have considerable flexibility, too. 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 (to honor a beloved relative or a cherished friend) or leave the gift unrestricted so that we can meet our changing needs.

## Gifts That Pay Income

You can also make a gift that will pay you a lifetime income. Under a well-planned life income arrangement, you can reduce taxes, increase spendable income and, at the same time, make a gift that will have a substantial impact on our future.

## **Charitable Gift Annuities**

Gift annuities are one of the most popular types of gifts. They are easy to understand and implement and they provide you with a number of benefits—an immediate income tax deduction (if you itemize), a lifetime income for you and/or your spouse or other beneficiary, and payments that are partially tax free.

A charitable gift annuity is an agreement between you and us. You transfer assets as a gift to us and, in return, we promise to pay a fixed amount to one or two annuitants for life.

There are many reasons why gift annuities are exceedingly popular. You can implement a gift annuity with a modest contribution. You qualify for an immediate income tax charitable deduction for the gift (subject to AGI limitations) and may be able to spread out capital gains tax liability. What's more, part of each annuity payment may be income tax free. In addition, you can elect a payment arrangement that is convenient to you (annually or quarterly).

With a deferred gift annuity, you still qualify for an immediate income tax charitable deduction, but you delay the start of the annuity payments for at least a year. The older you are when payments begin, the higher the payout rate you will receive. This lets you enjoy the tax deduction now and begin an income stream later to supplement retirement savings.

## **Charitable Remainder Trusts**

Another method of generating income and reducing income tax is to make a gift using a charitable remainder trust, which provides remarkable flexibility and important benefits:

- Income for you and/or your beneficiaries for life or a period of up to 20 years
- An immediate and substantial income tax charitable deduction if you itemize
- The potential to bypass immediate capital gains tax when you fund the trust with long-term appreciated property
- A reduction in the estate value, which may minimize or even eliminate transfer taxes
- A reduction of probate fees, settlement costs, and taxes

Subject to yearly limitations, you qualify for an immediate income tax deduction for a gift to a charitable remainder trust, even though income will be paid to you (and/or other beneficiaries) for life.

The exact amount of the charitable deduction depends on:

- The value of the property transferred to the trust
- The amount of income benefits payable each year to individual beneficiaries
- The length of time the income benefits will be paid (or are expected to be paid)
- The prevailing interest rates at the time of the gift

**EXAMPLE:** Elena wants to make a gift to us and supplement her income when she retires. She transfers stock 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 Elena's lifetime and makes the required payments to her each year. When Elena dies, the trustee pays the remaining trust property to us.\*

### **Charitable Lead Trusts**

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

A lead trust can help meet important planning goals, as it reduces transfer taxes while ultimately passing ownership to family members—particularly useful for assets that are expected to appreciate significantly while held in trust.

**EXAMPLE:** In her will, Mei establishes a lead trust with \$1,000,000 of stock in a company that she expects will grow significantly. The trust directs that \$50,000 be paid to her favorite charity each year for ten years after her death, at which point the trustee will transfer the remaining trust assets to Vanna, Mei's daughter. Mei's estate can claim an estate tax charitable deduction for the present value of the charity's interest even though Vanna ultimately is likely to receive a significant sum of money (especially if the stock appreciates as expected while held in trust). Mei has the personal satisfaction of providing \$500,000 over ten years to help support a cause she believes in.

## IRA Gifts

If you are 70½ or over and own an IRA, you can make a charitable gift using a qualified charitable distribution (QCD). One option is to transfer up to \$100,000 from an IRA directly to us (annual aggregate limit). A new option (beginning in 2023) is to make a one-time QCD up to \$50,000 to fund a new charitable remainder trust or charitable gift annuity. Transferred amounts count toward the required minimum distribution if one is due, but no tax is due on the distribution. At any time during the year, you simply notify your IRA custodian to make a QCD. Note that contributions to an IRA after age 70½ count against traditional QCD amounts.

## GIFTS OF RETIREMENT ASSETS

Retirement account assets left to heirs are highly taxed—once in the estate, and then as income to the beneficiaries. Stocks, bonds, mutual funds, and real estate are not subject to income tax when they transfer to heirs.

By using retirement account assets to make gifts (and leaving other estate assets to family members), you minimize the income tax burden on your heirs, leaving more to intended beneficiaries.

## Beneficiary Designations

A beneficiary designation is another way to make a meaningful and flexible charitable gift. It's easy to name us as the beneficiary 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 and possibly estate tax savings as well.

## Gifts of Real Estate

When you give appreciated real estate to charity, you completely bypass 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:** Demi and Seth own a \$300,000 vacation home that they use in July and August every year. 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.

## Giving 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 at 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 people own life insurance policies they no longer need—for example, a policy acquired to ensure a child's education, when the child is now out of school. If you give a paid-up life insurance policy, you can deduct the basis of the policy or the replacement value (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 offer to buy back the stock and retire it, as long as there's no requirement that the charity must sell it back to the corporation. Of course, the donor qualifies for a deduction for 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:** Hans owns 85% of the stock of a successful advertising business worth about \$1,000,000. The corporation has substantial accumulated profits, but Hans would realize taxable income if he received these profits as a distribution. Since his basis in the stock is zero, Hans is reluctant to subject \$850,000 of appreciation to the capital gains tax. Instead, he gives 5% of the corporate stock to us and because he itemizes, he is able to deduct \$50,000 as a charitable contribution. Because we want to liquidate the stock for cash, we choose to allow the corporation to buy back the stock from us for \$50,000. Hans receives a charitable tax deduction and he still owns 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 individuals may give to

charity. The full fair market value is generally deductible provided the asset is used for our tax-exempt purpose. Otherwise, the deduction is limited to your adjusted cost basis.

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. Our staff can help you and your advisors plan your gift so that you don't inadvertently lose your maximum tax benefits.



## A Final Word

There are many ways to give, and strategic planning can help you do more for your favorite charities. Contact us to explore how various giving options could fit in your financial and estate plans. We would be pleased to assist you as you plan a gift that provides tax and financial benefits along with the satisfaction of supporting our mission and benefiting generations to come.



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