

Opportunities for Making Charitable Bequests

What Assets Are Best to Give



While many sophisticated planned giving techniques exist today, we, like most charitable organizations, receive a majority of planned gifts from bequests. The popularity of charitable bequests can be attributed to several factors. For instance, most donors are familiar with bequests, and find these arrangements simple to understand. In comparison, some donors are intimidated by the complexity associated with some other planned giving arrangements. Also, donors can retain the bequest property during life, with the option to revoke or modify the bequest for changes

in life circumstances or personal goals. And, charitable bequests are flexible and may be of any amount and may take several forms.

Forms of Bequests

Charitable bequests can be tailored to your circumstances and objectives.

Specific bequests are — as the name indicates — bequests of a specific dollar amount or certain property, such as real estate or artwork. Specific bequests are paid before all

other bequests. However, if you need to sell the property or cash, the charitable beneficiary may never receive a bequest at all. Also, the property you choose for a bequest may not appreciate in value as much as other assets. Note that a specific bequest of an asset to a charity may require some planning. Be sure to contact us if you are planning to give assets like real estate or collectibles through your will.

Percentage bequests designate a set percentage of an estate to be distributed to a charitable organization. Percentage bequests assure that both your heirs and our organization will receive proportional shares of the estate. Thus, your intent to divide your estate stays in place, regardless of whether your estate increases or decreases in value.

Residual bequests are bequests of any assets remaining after all other specific bequests, death taxes and administrative expenses have been satisfied. This arrangement ensures that all your particular bequests will be satisfied first. We, as your charitable beneficiary, receive what is left of your estate.

Contingent bequests become effective when your primary beneficiary predeceases you, or disclaims the bequeathed property. While our opportunity to benefit is restricted by the contingency, you are assured that your property will not go to unintended beneficiaries.

Bequest Opportunities: What Assets Are Best To Give?

Some types of assets generate greater tax advantages when used to fund bequests rather than lifetime gifts. Here are assets that are generally better suited for bequest giving.

IRD Assets

Income in respect of a decedent (IRD) is income earned by you during life, but not includible in your gross income prior to death. Instead, IRD is taxed as income to the next owner, your beneficiary. Examples of IRD include qualified retirement plan accounts and traditional IRAs. When IRD items are left to charity, they not only qualify for the estate tax charitable deduction, but they also — because of the charity's tax exempt status — negate the

adverse income tax consequences of IRD. Since non-IRD items can be bequeathed to your individual beneficiaries without the attendant income tax consequences, it's often a sound strategy to leave IRD assets to charity and non-IRD assets to your individual beneficiaries.

Ordinary Income Property

A charitable bequest of ordinary income property offers a significant advantage over a lifetime gift of such property. Ordinary income property is property that would not produce long-term capital gain if sold at its fair market value. Examples include inventory, copyrights, and recapture property on which accelerated depreciation deductions have been taken, and tangible personal property that lacks a use related to the charity's tax-exempt purpose.

Charitable bequests of ordinary income property qualify for an estate tax charitable deduction based on the fair market value. In contrast, lifetime gifts of ordinary income property are reduced by the amount of any gain that would have been ordinary income or short-term capital gain if the property had been sold for its fair market value on the date of the gift.

U.S. Savings Bonds

Virtually the only way to donate U.S. savings bonds is through bequests. The U.S. Treasury Department restricts the lifetime conveyance of U.S. savings bonds (Series E, H, EE and HH). A gift may be made only by: (1) cashing in the bonds and donating the proceeds to a charitable organization, or (2) having the bonds reissued to the trustee of a revocable living trust in which the grantor is the income beneficiary and a charitable organization is the remainder beneficiary following the grantor's death. Treasury restrictions also prohibit you from naming a charitable organization as a bond's "co-owner" or death beneficiary.

But U.S. savings bonds can be bequeathed to charity at the bond owner's death. The owner's estate is entitled to an estate tax charitable deduction for the value of the bequeathed bonds. When the charity redeems the bonds, it will owe no income tax on any accrued interest because of its tax-exempt status. Normally, such interest would be taxable to the recipient as income in respect of a decedent.

U.S. savings bonds must be specifically bequeathed to charity to escape the deferred income tax. A general charitable bequest, satisfied by these bonds in the discretion of the executor, will not do so.

Charitable Lead Trusts

Testamentary charitable lead trusts (CLTs) offer the distinctive advantage of benefiting both charitable and non-charitable beneficiaries while reducing transfer tax costs. Testamentary CLTs are irrevocable trusts that come into existence under your will and distribute income to a designated charitable organization for a term of years or for the life of an individual. At the conclusion of the term, the principal is distributed to non-charitable beneficiaries.

The IRS calculates the value of the remainder interest to your heirs at its present value at the time the trust is established. When the trust ends and the assets are distributed to your heirs, the assets may be worth considerably more than their estate tax value. The trust

corpus may have grown at a rate higher than the payout rate to the charity. But regardless of the amount of the growth, there will be no additional estate tax on this appreciated amount. Thus, the CLT not only benefits charity but enables you to (1) realize a “tax discount” on the date-of-death value of the principal by virtue of the charitable income interest, and (2) avoid estate tax on the post-death appreciation.

Charitable Remainder Trusts

Like CLTs, charitable remainder trusts (CRTs) distribute funds to both charitable and non-charitable beneficiaries, while providing some relief from taxes. Unlike CLTs, CRTs first pay out income to individual beneficiaries (for a term of years up to 20 or for life), with the remainder distributed to a charitable organization. Your estate may claim an immediate estate tax charitable deduction for the present value of the remainder interest, provided the trust is either a qualifying charitable remainder unitrust or charitable remainder annuity trust.

AN EXAMPLE OF A TESTAMENTARY CLT

Ruth Miller wants to make a will distributing funds to both our organization and her daughter. To accomplish both goals, she sets up a testamentary charitable lead unitrust with \$3 million from her estate. At Ruth’s death, the charitable lead unitrust will pay out 5% of the value of the trust assets to us every year for a period of ten years. Over that period, we can expect to receive \$1,189,854. In turn, Ruth’s estate will qualify for a charitable deduction of \$1,186,419. If the trust earns a 6% rate of return, at the conclusion of the ten-year period, Ruth’s daughter will receive \$3,313,866.

This example assumes an applicable federal rate (AFR) of 2.4% and a quarterly payment.

AN EXAMPLE OF A TESTAMENTARY CRT

Carl Wilson wants to make a bequest to provide for both his disabled brother, John, and our organization. John needs financial help to cover his medical and caregiver expenses for the remainder of his life.

Carl sets up a testamentary charitable remainder unitrust that will be funded with a bequest from his estate. At Carl’s death, John will receive 5% of the annual value of the trust assets as revalued every year until his death. Carl’s estate will qualify for an estate tax charitable deduction based on the present value of the charitable remainder interest of the trust.

Qualified Disclaimers

Your estate beneficiaries may not want to accept a bequest for any number of reasons: perhaps they are already financially secure, or maybe are unwilling to bear the costs and administrative hassles associated with the particular property.

By naming a charitable organization as contingent beneficiary, your estate can qualify for an estate tax charitable deduction if your primary beneficiary makes a qualified disclaimer. In so doing, your primary beneficiary is treated as never having received the property. Rather, the property passes to the charitable organization.

Important Note: Your Will Is Not a Complete Estate Plan

Sometimes donors make bequests through will provisions naming charitable organizations as the beneficiaries of qualified retirement plans, individual retirement accounts, or life insurance policies. However, the beneficiary designation on the contract, not the will provision, controls the disposition of these assets. This is why it is important to consult with your advisors when developing or changing your estate plan.



Recording Bequests

It is important to provide our institution with notice and the actual language of your charitable bequest. We can review the wording of any gift restrictions to assure that such restrictions are capable of fulfillment, and verify that our legal name is used. Equally important, this information can assist our long-range planning.

Please feel free to contact us. We will be happy to work with you and your advisors to plan a charitable bequest that will bring you maximum benefits and personal satisfaction.