Planned Giving - A Blessing for All

Planned giving is a phrase many hear but few understand. To a degree, it is like estate planning, a phrase often misunderstood itself because it is thought of as just getting a will or trust. True estate planning is far more than just a will or a trust (see Documents (And Protection) Everyone At Every Age Should Have for the whole story). Similarly, planned giving is more, far more, than just planning or making a few gifts, whether large or small.

What is planned giving?

The name planned giving was earned because true planned giving requires planning, negotiation and professional advice more than many immediate gifts. Planned giving is a means of supporting non-profit organizations and charities that enables people who are generous to make larger gifts than they could make from just their income. Planned gifts may provide a life-long income to the donor, some use estate and tax planning techniques to support a charity they love and may also support other heirs using the tax code so as to maximize the gift and/or minimize the tax.

Planned giving is not just what is donated through a will or trust after death but includes many gifts made during the donor's life. It can also be a bequest at death. Planned giving should be part of a donor's overall estate plan. Planned gifts make use of legal and tax strategies and/or financial products requiring donors to turn to professionals for assistance. In contrast, charitable donations made from a person's cash flow are typically not defined as planned giving. Gifts to an annual fund, membership dues or even tithing are typically made from the donor's discretionary income. Such donations may be planned in a budget but they are not planned giving.

Planned gifts take a number of forms. There are outright gifts of assets such as appreciated securities, property or artwork. Other types of planned gifts provide a financial benefit on top of tax deductions for donors. Charitable remainder trusts provide an income stream for individuals, and at the death of the donor, the charity receives what is left in the trust. A charitable lead trust, on the other hand, produces a stream of funds for a charity, and at the death of the donor, the donor's heirs receive what remains in the trust. Some planned gifts are payable upon the donor's death such as a life insurance policy where the beneficiary is a charitable organization. Other planned gifts provide different benefits. Simply put, planned giving serves at least two purposes. First, planned gifts help support charities worthy in the eye of the donor. Second, planned giving can be useful in helping donors make more gifts, larger gifts and, at the same time, address their own financial needs.

To really get your arms around this large topic, you need to see what planned giving means both through the eyes of the organization receiving the gift and through the eyes of the donors.

Through the eyes of the charity

To a strong and organized charity or other organization (hospital, school, foundation, etc.) planned giving can be a financial blessing. Planned gifts to charitable organizations over about the past 40 years have averaged close to 5% growth annually. Amazingly, that has been the case even during the tough economic times of the recession starting in 2008. Planned gifts often play a major role in allowing a charitable organization to expand its services or even to survive. No charitable organization can ignore such a potential blessing without losing incredible opportunities. That is why many charities start planned giving programs and then promote and support planned giving.

Once a charity has established a planned giving program, the cost to maintain that program and generate revenue is usually less than 15% of the giving, and it is often far less than that. This can best be seen by an imaginary illustration. Imagine that the average planned gift is, say, $25,000. An organization can get revenue of $500,000 by receiving 20 planned gifts. That is a huge blessing to the charity, and it comes at a cost or $75,000 or less ($75,000 is 15% of the sum of donations). However, to make it even more interesting, the average planned gift in the United States is between $35,000 and $70,000, making the $500,000 above between $700,000 and $1.4 million.

For a charity to not seek planned gifts is unwise.

Through the eyes of the donor

Now we shift and look at planned giving through the eyes of the donor. Here the view is significantly different, but the benefits to the donor are reflected in the benefits to the charity or non-profit. There is often a tax benefit in planned giving. But that is only the beginning. True planned giving allows the charity to be benefited and for the donor to see that benefit even as tax benefits are maximized through coordinated financial and estate planning.

It is unnecessary to ask "why give?" People give for many reasons, but the best is because God has given so incredibly much to us. See John 3:16.

> *John 3:16*
> *16 For God so loved the world that he gave His one and only Son, that whoever believes in His shall not perish but have eternal life.*

Real reasons for giving go far beyond that. We are commanded to help those in need. See, for example, Deuteronomy 15:11, Psalm 74:21, Matthew 25:36-46, and Romans 12:13, among many others.

We are instructed to help the weak, Acts 20:35, and to do that by being generous. One consistent call of the Gospel that is woven throughout the entire Bible is for us to be generous with all that God has given to us.

The impact of giving is immeasurable. Our giving can be so much more impactful if it is combined with others giving to the same cause and when it is carefully planned. That impact is, or certainly should be, a blessing to the donor.

Getting started with planned giving

So how can you most effectively do a planned gift? You start with care. Not every charity is fiscally responsible, so it is wise to start with research into details of the charity of your choice to make certain that it will truly serve the desires of your heart. Step 1 is for you to make sure the charity really is a 501(c)(3) charity properly registered with the IRS? You can check at EO Select Check. Next, ask whether the charity files with the State of Florida (or the state in which it operates) as an organization soliciting charitable donations. In Florida, the Department of Agriculture and Consumer Protection requires the filing of records annually making each charity prove its status and its compliance with the law. Third, see whether the charity complies with the laws regarding charitable solicitations. In Florida and many other states, an organization seeking charitable donations must disclose certain information with each act of solicitation and even on its website. Fourth, determine how much of donations actually go to the mission as opposed to the administrative expenses such as the salaries and overhead? Experience has proven that some "charitable" organizations believe that charity begins at home and have administrative costs and overhead of more than 90% of donations. While it does take effort, your charity's Form 990 is filed with the state of Florida and that information can be determined. Unfortunately, with the charities that are not really on a mission for their cause, misrepresentation is also a problem, so simply asking can have uncertain results. Larger charitable organizations (with more than $1 million per year in revenue) may be rated on the Charity Navigator site.

Most donors give to a charity that has a mission that aligns with the donor's heart. The donor can stay in touch with the charity and get to see the impact of the giving while still alive. Giving should not necessarily be about getting your name on a building or even a plaque on a building wall, but about leaving a lasting mark in the lives of the people who benefit through the charity you chose.

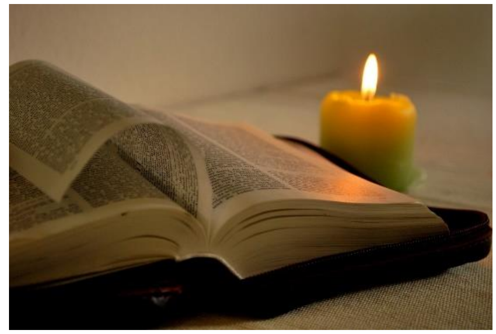
There can also be a selfish benefit to giving. In Malachi 3, God advised His people they were living under a curse because they were robbing Him. Their way out? God dared His people to give. His Word made it clear:

> Malachi 3:10
> 10 Bring the whole tithe into the storehouse, that there may be food in my house. Test me in this," says the Lord Almighty, "and see if I will not throw open the floodgates of heaven and pour out so much blessing that you will not have room enough for it.

That is the challenge of a lifetime! "I dare you to do it!" from God Himself! That was God's challenge to His people and that remains His challenge to us today. And the potential benefit is clear, "see if I will not throw open the floodgates of heaven and pour out so much blessing that you will not have room enough for it." We were told by the apostle Paul that if we sow sparingly, our reaping will be sparing, but if we sow generously, we will reap generously. 2 Corinthians 9:6.

> 2 Corinthians 9:6
> 6 Remember this: Whoever sows sparingly will also reap sparingly, and whoever sows generously will also reap generously.

That is not the prosperity Gospel. God's blessings come in many forms other than money. Do not test God expecting Him to benefit you financially the week after you write your first tithing check. Do test God to give you the many blessings of the fruit of the Spirit, love, joy peace, patience, kindness, goodness, faithfulness, gentleness and self-control, Galatians 5:22-23, and do test Him to allow you to have peace in your heart knowing that you have been obedient. Obedience matters



What are the common gifts that are a part of planned giving?

There are many ways generous people can make planned gifts, but here are some of the most common:

Outright Gifts

Bequests by a will or trust. Most planned gifts are made as bequests in a will. A will may leave a charity a specific dollar amount, a percentage of the estate or the remainder of the estate after other bequests.

Donor advised funds. A donor advised fund ("DAF") allows you to make a tax-deductible gift to the tax-exempt organization establishing the DAF, and then later advise determine where you would like the funds, all or part, to be given. In the case of a DAF established through The Idlewild Foundation with the National Christian Foundation ("NCF"), the DAF is established with NCF and funds are given to your DAF. The funds become deductible at that time, even though you may not determine what charity the funds are sent to until later.

IRA charitable rollover. An IRA charitable rollover is a direct transfer of up to $100,000 to a qualified charity from an individual retirement account (IRA). If you are eligible to make such a donation, this is a very tax-efficient way to make a charitable gift. You may benefit from giving from your IRA if…

- You want to make a significant gift without using cash or other assets.
- You do not need all or a portion of your IRA income.
- You want to reduce your taxable income.
- You do not itemize deductions. A rollover gift can reduce your income and taxes, so you can still benefit, even if you do not itemize.
- You want to make a gift that is not subject to the 50% deduction limit on charitable gifts.

Life income gifts, gifts that generate an income to the donor

Charitable gift annuities. Donors can use a Charitable Gift Annuity ("CGA") to contribute assets, usually cash or appreciated securities while still enjoying some of the income from the assets.

A CGA is a simple contract between the donor and the charity. The donor makes an irrevocable transfer of cash or property to the charity. In return, the charity agrees to pay a fixed amount of money each year for the lifetime of designated beneficiaries, often called annuitants. The amount and frequency of payments will necessarily depend on, among other factors, the number of persons receiving payment and their ages. The beneficiaries may have the option to delay receiving their income stream until some future date if that decision is made when the contract is signed.

Many charities offer CGAs to their donors because they are easy to explain and offer income security to the beneficiaries, something especially helpful in a weak economy. CGAs also require minimal administrative time and expense to start and to maintain. These gifts are attractive to donors who are interested in making a gift to charity but cannot make a current outright gift, usually because they need a regular income.

Charitable gift annuities are regulated in many states, making it necessary for a donor to comply not only with the donor's state requirements but also with the beneficiary's state requirements if the donor and beneficiary reside in different states.

A charitable gift annuity is partially a gift to the charitable institution. As a result, there is a deduction available to the donor.

Charitable remainder trusts.

A charitable remainder trust ("CRT") is an irrevocable trust in which the donor transfers cash or property to a trustee. The donor or others named by the donor as "income beneficiaries" (often the donor and the donor's spouse), then receive income from the trust for either life or a specified term of years. That term of years may not exceed twenty years.

When the trust terminates, the remaining trust balance is distributed to the charities named as the beneficiaries. There are two main types of charitable remainder trusts, charitable remainder annuity trusts and charitable remainder unitrust ("CRUT"). The most meaningful difference between the two is the method by which the annual income paid to the income beneficiaries is calculated. Additionally, annuity trusts do not allow for additional contributions once funded. On the other hand, CRUTs allow additional contributions to be made.

Charitable remainder annuity trusts pay a fixed dollar amount while charitable remainder unitrusts, by contrast, provide variable income payments to the beneficiaries because the trust amount may vary with the market. The payout provided for in the trust document must be at least 5 percent. Typically, CRTs have payout percentages ranging from 5 percent to 10 percent, depending on the number of income beneficiaries and their ages.

When the trust period expires, the remaining property in the trust goes to the named charity or charities. CRTs are considered to be attractive for low-income but highly appreciated assets, most often real estate or marketable securities. By using a CRT, the donor transfers the asset, avoiding capital gains taxation, while at the same time the donor receives an income stream (some of which may be taxable).

Charitable lead trusts. These trusts are somewhat opposite to CRTs. They make payments, either of a fixed amount (charitable lead annuity trust) or a percentage of trust principal (charitable lead unitrust), to a selected charity during the trust's term. At the end of the term, the remainder can either go back to the donor or to heirs named by the donor. Generally, a non-grantor lead trust does not generate a current income tax deduction, but it does eliminate the asset (or part of the asset's value) from the donor's estate.

The charitable lead trust is a very sophisticated planned giving instrument. It would be unwise to attempt to enter into a charitable lead trust without expert counsel and wise and trusted financial guidance.

Pooled income funds. A pooled income fund is a type of charitable mutual fund created from securities or cash donated to an organization. The pooled income fund is then invested to provide dividends for both the donor and charity. This is an irrevocable fund, it is tax deductible and must be from personal assets. When the donor dies, the balance of the donation is given to the charity or charities chosen by the donor. Most often, pooled income funds are managed by the charity and the charity funds its operations through the fund proceeds. These funds are relatively commonly for large organizations such as hospitals or universities.

Retained life estates. This requires a transfer of title in property and is not always feasible, but a transfer with a retained life estate may be a way to avoid probate and smooth the transfer of property to real estate upon death. Life estates allow a property owner to use property during his or her life, but then the title to the property transfers automatically at death. These are not as simple as they sound. There are legal, tax and real estate issues and there are different types of life estate deeds, so consult with an experienced attorney about this means of giving.

What are the tax benefits of planned gifts?

- Donors can contribute appreciated property, like securities or real estate, and receive a charitable deduction for the full market value of the asset, while not paying capital gains tax on the "gain" that occurs at the time of the gift.

  Donors who establish a life-income gift receive a tax deduction for the full, fair market value of the assets contributed, less the present value of the income interest retained. Furthermore, if the gift is appreciated property there is no upfront capital gains tax that must be paid on the transfer.

- Gifts payable to charity upon the donor's death, such as a bequest or a beneficiary designation in a life insurance policy or retirement account, do not generate a lifetime income tax deduction for the donor, but they are exempt from estate tax.

Charitable giving is God's plan for our hearts. We are called to be generous with the wealth we have been given by God, whether great or small. In 2 Corinthians 9:8 Paul wrote:

2 Corinthians 9:8

8 And God is able to bless you abundantly, so that in all things at all times, having all that you need, you will abound in every good work.

That message is clear, God is able to and does bless us abundantly not so that we can hoard it all up to protect ourselves, but instead so we may "abound in every good work." This is a careful plan from God as we can see 2 verses later in the same passage:

2 Corinthians 9:11

11 You will be enriched in every way so that you can be generous on every occasion, and through us your generosity will result in thanksgiving to God.

He enriches us so we "can be generous on every occasion." Amen!

With these planned giving tools, the donor gets a charitable income tax deduction at the time of the original gift. The remaining property that will be transferred to the charity is removed from the donor's taxable estate. However, know that these are complex strategies and require professional guidance. The Idlewild Foundation has been affiliated with The National Christian Foundation because of its high level of expertise in planned giving. Call us at 813-264-8713 and we will get you the help you might need.

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