

Twelve Tactics for Tough Times

Major and Endowment Gift Options

In times of financial and economic uncertainty, a number of charitable gift options available to donors are particularly appealing. Of course, not all gifts are appropriate for all donors.

- 1. Appreciated Assets.** Even when the market is down, donors may have stocks or mutual funds that are worth more than they originally paid for them. In such a circumstance, the donor may want to consider transferring some of those appreciated investments to your endowment. By giving the securities directly to your nonprofit organization, rather than selling them and donating the cash from the sale, the donor can avoid paying capital gains taxes. Plus, if the donor has held the donated securities for a year or more, the income tax deduction will be based on the appreciated fair market value at the time of the donation.
- 2. Depreciated Assets.** If, on the other hand, the donor has stock or other assets that are worth less than the amount paid, the donor should consider selling the asset and giving the proceeds of the sale, rather than the asset itself. This enables the donor to take advantage of both the loss and the charitable contribution on their taxes.
- 3. Income Only Gift or Flexible Endowment.** Donors who are interested in making a gift to endowment but are hesitant because of the current economic climate have the option of donating the equivalent of the income portion from an endowment gift for a designated number of years. When economic circumstances improve, they will then make a leadership gift to the endowment. See Flexible Endowments [at www.benefactorgroup.com] for more information about how this can work for you.
- 4. Market-Based Pledge.** In some cases, donors are reluctant to give stock because they believe the value will increase substantially. For example, a donor has a stock asset currently valued at \$7,000 but she/he wants to wait until the price reaches a value of \$12,000 before giving it to your organization. The donor provides your organization with a copy of a transfer order for confirmation. This gift cannot be counted as income and any permanent recognition should be deferred until the gift is fulfilled. Despite these limitations, such a gift can be a good way to keep the donor invested in your institution.
- 5. Bequests by Will or Trust.** The bequest market is stronger now than in the past, especially for those 65 and older who no longer have liquid assets or are not comfortable giving assets that may generate earnings during their retirement years. They may not be willing or able to make a significant gift now but they can commit the gift now through their wills. Many older people receive a great sense of satisfaction from such a gift and they can receive thanks and recognition during their lifetimes.

Donors have the option of making a bequest commitment with a “buy back” option. When the market hits a pre-determined index, the donor “buys back” the bequest with a cash gift. Alternatively, donors may make a written pledge for a specific pledge to be paid during their lifetime, with any pledge balance remaining at the donors’ death to be paid in full by bequest.

Bequests are the most common form of deferred gifts, accounting for approximately 80% of all deferred gifts each year. In a will or trust, the donor should specify your organization as the beneficiary (of all or a portion of the assets at the time of death) and the name of the endowment fund or other fund to which the donor's gift should be allocated. Of course, the donor may change the beneficiary at any time during their lifetime. The large majority of donors, however, do not change beneficiaries once they are made

- 6. Charitable Lead Trust.** A charitable lead trust is a separate legal entity that holds assets for a period of years or for the lives of one or more individuals for the benefit of a nonprofit organization. At the end of the term, the corpus of the trust is distributed to noncharitable beneficiaries, often children or grandchildren, designated by the donor. During the period of the trust, it pays the trust income, on an annuity or unitrust basis, to your organization or to the organization's endowment—a wonderful way to build the endowment annually.

The charitable lead trust is attractive to generous individuals in high estate and gift tax brackets. It allows the donor to benefit a favorite charity and, thereafter, pass the principal to family members with little or no taxes owed. A trust created during a donor's lifetime "locks in" the gift tax value early on so any appreciation in value over the remaining years of the donor's life generally will not be taxed to the donor's estate or to the family. As you can imagine, the most advantageous time to establish a charitable lead trust is when the value of the asset is low and expected to increase in the future.

- 7. Charitable Gift Annuity.** A charitable gift annuity (CRT) is a contract under which a charitable organization, in exchange for cash or other property, agrees to pay a fixed sum of money for a period measured by one or two lives. The donor receives a current income tax deduction for a portion of the gift. A donor can make the contribution and direct the payments to her- or himself. Alternatively, the donor can direct that the payments be made to someone else (e.g. a parent or sibling).

Gift annuity payments can begin immediately after the contribution or begin on a future date, which is called a *deferred-payment* gift annuity. The longer the annuitant waits to start payments, the larger they will be. The payment amount is fixed from the outset; it will neither increase nor decrease no matter what happens to interest rates or the stock market. That is a comfort to many people at this time.

This type of gift arrangement is particularly appealing to donors concerned about income during retirement years. Although the rates recommended by the American Council on Gift Annuities have been lowered recently in response to the stock market downturn, the return, especially for older donors, is still considerably higher than CDs, for example.

People who have already included the organization in their wills may be especially attracted to gift annuities. Why not make greater income from dollars already committed to the charity? And the older the donor is when the charitable gift annuity is established, the higher the gift annuity rate. As you might expect, this frequently appeals to older donors.

- 8. Retirement Plan Beneficiary Designation.** Many people have seen the value of their Individual Retirement Accounts (IRAs) and other qualified retirement plans decrease in recent months. Nonetheless, they are good assets to consider for deferred endowment gifts, since donors' heirs will need to pay income tax on

distributions after the donors' lifetime (as well as possible federal and state estate taxes). Depending on the size of the donors' taxable estate, more than 70% of retirement fund assets can end up passing to state and federal taxing authorities. Thus, the "cost" of the charitable gift to the heirs is often dramatically less than charitable gifts of other assets.

- 9. IRA Current Distributions.** The Emergency Economic Stabilization Act of 2008 extended a 2006 provision allowing individuals over the age of 70½ to make distributions (not to exceed \$100,000) from their IRAs to qualified charities without recognizing the distributions as part of their adjusted gross income. While recent legislation has suspended required minimum distributions from IRAs due to current economic challenges, donors still may find this charitable option of benefit for current and future giving
- 10. Life Insurance.** Donors may make gifts of paid-up life insurance policies to your organization and take a tax deduction for the interpolated terminal reserve (typically cash surrender value). Or, donors may make gifts of premium-due policies to the organization and then take tax deductions for gifts to the organization to pay the premiums.

Alternatively, the donor may choose to retain ownership of the policy and name the organization as the beneficiary of the policy at the donor's death. In a written letter of agreement, the donor may direct your organization to add the policy proceeds to its endowment and may describe any restrictions on the use of the fund's distributions. The donor's estate will report the value of the policy on the federal estate tax return and thus take a charitable deduction for the value of the gift.
- 11. Transfer of Real Estate.** For donors with significant real estate holdings with substantial capital gains, several strategies can create tax savings and life income streams. An outright gift of real estate will provide income tax savings, shelter the donor from the capital gains tax, and produce estate tax savings.
- 12. Cash.** That's right. Some (many?) donors will still elect to make a cash gift even if market conditions have dimmed their fortunes. After all, their support is needed now more than ever and they may prefer to devote their assets to good works today, rather than risk further declines in the market.

We encourage you to discuss these options with your organization's supporters. If you feel uncomfortable, you might invite a representative of your local community foundation to join you. Whenever possible, meet with the donor's own financial advisors, too. Regardless, every donor should consult his or her own independent financial advisor to determine the best strategies to meet both charitable and financial goals.

Would you like to learn more about including these tactics in a comprehensive fundraising plan?

Please contact us; we'd be happy to discuss your situation.

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