

Strategic Stewardship

Hope Christian Community Foundation

I. WHAT IS GIFT PLANNING?

We all know people who seem to be able to stretch a dollar further than others. How do they do it? At least part of their secret lies in good organization. Their plans may not be elaborate, but they're well grounded. Good planners know what they want to do and they find out how best to do it. When you know you want to continue furthering Kingdom work, a little time devoted to discovering how best to give yields great benefits:

You'll discover ways to give more than you ever thought possible. You may be able to make gifts that actually "give back" for a time, providing extra retirement income or helping to pay for your children's education, for example. You can add special meaning to your gift by arranging a memorial in honor of a special friend or loved one. You'll save money on income, gift, and estate taxes that can be put to use at for the Kingdom. You'll enjoy your giving more, knowing that you're not only helping to further God's work, but that you're also managing your giving in ways that allow you to give the most you can at the lowest possible cost.

That's what gift planning is all about. It just makes sense to make the most of what you have by preserving financial security for yourself and your loved ones as you benefit other organizations to which you are called.

If any of the giving methods described in the following web pages interest you, please send an e-mail or call our offices. You may click on the "How to contact us" button for that information. Our staff is available upon request to answer your questions and discuss opportunities with you and your advisors. Always consult your own advisors about giving methods you are considering as well.

II. THE CHOICE OF WHAT TO GIVE

Cash: A Traditional Favorite

The Hope Christian Community Foundation (HCCF) most commonly receives cash gifts in the form of checks. Cash gifts are convenient for many people and are easily recorded through canceled checks and receipts. It is important to save all receipts to assure maximum tax savings.

Non-cash Gifts: Surprising Savings

Donors to HCCF frequently make gifts in forms other than cash. Examples include:

- Securities (stocks, bonds, mutual funds)
- Real estate
- Insurance policies
- Retirement plans
- Stock options
- Other items of value (jewelry, paintings, collections, antiques, automobiles, etc.)

After considering all that you own, you may find giving property other than cash to be an appealing alternative. Giving non-cash property enables you to help ministries and other organizations while conserving cash for other uses and enjoying what may be greater tax savings than those provided by gifts of cash.

Giving Appreciated Property

If you have non-cash property, such as stocks and mutual funds, that has grown in value (appreciated) and been held long-term (currently more than one year), you can generally enjoy greater tax savings from giving such property than from giving an equivalent amount of cash. That's because a gift of long-term appreciated property does not generate capital gains tax, which you may owe if you sold the property. You also receive a charitable deduction for the property's current value, including the amount of any increase since you have owned it.

Giving Depreciated Property

If you have stocks or other properties that have decreased in value, you will normally benefit more by selling them and giving the proceeds. You may be able to claim a capital loss on your tax return. You can also deduct the cash proceeds you give as a charitable gift. The result can be to enjoy tax deductions that amount to more than the current value of the asset.

For example: Lisa Jones is in the 39.6% federal income tax bracket. She wants to open a donor advised fund with \$5,000. Should she give stocks, bonds, or mutual funds worth that amount, or sell them and give the cash from the sale?

If she gives \$5,000 cash, she'll receive a deduction for \$5,000, saving her \$1,980 in taxes. If she gives stock valued at \$5,000 that was purchased years ago for \$1,000, she will achieve the following results:

A charitable income tax deduction for \$5,000, saving her \$1,980 in taxes (just like a cash gift), plus avoidance of capital gains tax on the \$4,000 increase in value—an \$800 savings (20% capital gains tax rate x \$4,000).

All told, Lisa's gift of stock "costs" her just \$2,220. Comparing that to her \$3,020 "cost" of giving cash, she decides to give the stock and thus give the same amount to a donor advised fund at a savings of over 26% of the after-tax cost of a gift of cash.

With these possibilities in mind, read on to learn about a variety of gift plans that allow you to give more while helping to preserve your economic well-being.

III. GIFTS THAT PROVIDE INCOME...TO YOU AND OTHERS

Did you realize that it is possible for you to make a gift to further God's work while retaining needed income for yourself and/or your loved ones? In fact, you can choose from several methods of making gifts that feature a retained income.

Many people who make use of these gift plans find they can give more when they discover the benefits of tax savings, asset management, and regular payments to them for life.

They also find that gift giving need not mean sacrificing their own or their loved ones' financial security. In fact, giving for income can assist in meeting a number of goals by helping you:

- Increase your current income from low-yielding stocks or other assets.
- Create a supplemental source of retirement income.
- Assure a protected income for your spouse or other loved ones who survive you.
- Arrange to provide funds to assist parents in later years.

Plan to cover educational or other expenses during a specified time for children or grandchildren. With these possibilities in mind, read on to learn about a variety of gift plans that allow you to give more while helping to preserve your economic well-being.

Trusts: Reach Many Goals At Once

As you may know, trusts are very flexible planning tools that can be used to accomplish a wide range of goals. Some people rely on them to reduce property management chores. Others use trusts to delay distribution of property for any number of reasons. Trusts also allow a person to arrange for property to be put first to one use, then to another. A charitable remainder trust offers a meaningful way to contribute to your donor advised fund while first providing income for yourself and/or others you name.

Here's how such a trust functions:

You, as the donor, create a trust, drafted by an appropriate professional advisor. You transfer cash or other property to the trust to be managed by you or another you choose as trustee. The trustee manages the property for you, your spouse, and/or other beneficiaries you choose. Each year payments are made from the trust to you and/or other beneficiary(ies). You receive an income tax deduction and may enjoy capital gains tax savings in the year you create the trust.

Payments continue until the trust is "dissolved." The trust document specifies when this is to occur, such as at the death of the last beneficiary or after a stated period of time. When the trust is dissolved, its assets become a gift to your donor advised fund. This gift portion is known as the charitable remainder. If you wish, it can be used to create a memorial fund honoring whomever you choose.

A Gift With Income That Never Changes

A charitable remainder annuity trust is a way to make a gift while receiving a fixed and regular income. Income from such a trust can be a reliable supplement to other retirement plans. Through the use of such a plan, professional management of assets can also be achieved for you and/or surviving loved ones. The payments received each year will be at least 5% of the amount originally placed in the trust. The exact amount is determined by you when the plan is created.

For example: Alice Smith, 72, decides to place \$250,000 in a charitable remainder annuity trust. She funds the trust with stocks that cost \$250,000 and are yielding 2%, or \$5,000, per year in income.

Here are the results she achieves:

Annual income for the rest of her life (7% of \$250,000)...	\$17,500
Capital gains when the trust is created...	tax \$0
Immediate tax deduction...	\$118,885

(May be carried forward for as many as five future years if amount is more than can be deducted in the year of her gift.)

Alice is pleased to be able to substantially increase her income while making a significant gift to fund future work in God's Kingdom.

A Gift With Fluctuating Income

Like the annuity trust, the charitable remainder unitrust provides for a gift that returns an income. But unlike the annuity trust, the income from a unitrust fluctuates with the value of the assets placed in the trust.

You determine the annual payout percentage when the gift is made. Each year this percentage (at least 5% as required by law) of the value of the trust assets is paid to you or others you select. When the value of the investments goes higher, more income is received. The income will be less if the value of the assets declines. Additions can be made to this trust, and a tax deduction is allowed for part of each amount contributed.

For example: If Alice Smith chooses a unitrust paying 6%, the first year she receives \$15,000. Next year, if the assets are worth \$275,000, her income rises to \$16,500 (6% of \$275,000). If the value of the assets is less next year, her income will be reduced by a corresponding percentage.

She is entitled to a deduction equal to over half of the amount with which she funds the trust. She also avoids capital gains tax at the time the trust is created. The charitable remainder unitrust can be an excellent way to provide for an income today with the possibility of future growth for those who believe that investment assets will grow in value in future years.

For many taxpayers, deductions for Individual Retirement Accounts (IRAs) and other retirement plans have been limited or eliminated, so the unitrust could play a welcome role

in planning for retirement years.

IV. MAKING GIFTS...WHILE PROVIDING FOR INHERITANCES

Making a Temporary Gift

What if there were a way to make a charitable gift using funds that would eventually be returned to you or your loved ones? Remarkably, such a plan actually exists. A charitable lead trust can be used to achieve a number of goals which, at first, might seem to conflict.

You can make a significant gift of income to fund ministries or other organizations that will begin immediately and continue for a period of time you determine at the time you fund your trust. Your gift can be part of a plan that helps assure future economic security for yourself and your loved ones. You may be able to provide your heirs with a larger inheritance than would otherwise be possible. You can reduce or eliminate income, estate, and gift taxes now and in future years as well.

Other plans discussed previously feature annual income paid to you and/or your spouse or another person or persons for life or other period of time. Under such plans, when income ceases, any remaining funds go to your donor advised fund at that time. Under a charitable lead trust, however, your donor advised fund receives its gift in the form of immediate payments from the trust for a period of time you determine. At the end of that time period, the assets used to fund the trust are returned to you or other loved ones you designate. In the meantime, there is a significant accumulation of funds in your donor advised fund that can be advised by you and/or your family to ministries and charitable organizations you choose.

As you can see, the charitable lead trust can be an especially attractive way to meet multiple personal and charitable planning goals.

For example: John and Judy Jones would like to eventually leave \$500,000 to their children who are now teenagers. They have been told by their advisors that it would require a gift from their estates of as much as \$1 million or more for the children to realize \$500,000 after estate taxes of 55% or more that could be due. As an alternative to a bequest to their children, the John and Judy decide to fund a charitable lead trust with \$500,000. The trust will make payments equal to 7.75% of the amount used to fund the trust, or \$38,750, per year. John and Judy will owe no income tax on the earnings of the trust as they are received by their donor advised fund. The payment amount will be fixed and will not change over the term of the trust, which they decide to set at 22 years.

It was determined that they would use the income from the trust to make a significant contribution to their donor advised fund which they will use to benefit God's kingdom and teach their children about stewardship. At the end of the 22-year period, after charitable gifts totaling \$852,500 have been made to their donor advised fund, the Jones' children will receive \$500,000 or whatever other amount remains in the trust. Because of the charitable gifts made from the trust, little or no estate or gift tax will be due on the amount they receive. If the assets in the trust grow in value during the term of the trust, the children will also receive any amount over \$500,000 free of gift and estate taxes at a time in life when

they may be more responsible and have greater need.

To summarize, the John and Judy have:

Made a significant contribution to further God's Kingdom and important work of worthy charitable organizations.

Provided for a significant inheritance for their children at a time when they are mature adults.

Eliminated all gift and estate taxes that would otherwise be due on the \$500,000 amount originally placed in the trust along with the amount of any growth which should occur in the assets over time.

Avoided taxes on the income from the property used to fund the trust that they would otherwise pay during the period the trust is in existence.

Provided a way to teach their children about the importance of giving back.

V. GIVING THROUGH YOUR WILL OR LIVING TRUST

In addition to its importance to your family and others you wish to benefit, your will or living trust can be a useful way to make a significant contribution. It's a gratifying way to know your property will be put to good use after you no longer need it.

A gift made by will or living trust can be simple to arrange. A provision or amendment prepared by your attorney at the time you make or update your will or trust is all that is necessary. Gifts through wills are popular because they are easy to arrange and may be changed at any time you choose.

Such gifts may be arranged in several forms:

- You can give the remainder, or residue, of your estate—that is, what remains after all other bequests to friends and loved ones are satisfied.
- You can designate a percentage of your estate to be given through your will or living trust or you can leave a specific dollar amount.

In all cases, any charitable gift by will or trust is deductible for estate tax purposes, so no tax will be due on assets given in this way.

VI. GIFTS THAT MAY BE CHANGED IF NECESSARY

As we have already seen, gifts by will can be a flexible way to give and are easily changed if circumstances suggest that it is prudent to do so. There are several other ways to make gifts that can be changed in the future, if necessary. Because of the freedom these plans afford, you may be able to arrange larger gifts than you might otherwise make.

Life Insurance and Retirement Plans

Life insurance and retirement plans, such as 401(k)s, and others, are a primary means through which many Americans assure financial protection and security for themselves and their loved ones during retirement years and after their lifetime.

A hidden benefit in life insurance and retirement plans is the ability to use them as a “pocket” from which to make charitable gifts both now and in future years.

Life insurance policies that may have outlived their original purpose can be very valuable gifts. Life gifts of cash and other assets referred to earlier, gifts of “obsolete” life insurance policies can yield significant tax savings while allowing you to make gifts that might not otherwise be feasible. It is also possible to change the beneficiary provisions of your life insurance to include your donor advised fund.

You can provide for a specific amount, a percentage of the proceeds, or the remainder of the proceeds to become a charitable gift after distributing the majority of funds to your family and other loved ones.

As in the case of life insurance, retirement plans can include charitable beneficiaries in many cases. As the proceeds of retirement plans when left to your family and friends can be subject to both estate and income taxes, for many individuals the amounts left in their retirement plans will be the best property from a tax planning standpoint to use to satisfy their charitable wishes.

Just like bequests from wills or trusts that can be changed at any time, the beneficiaries of your life insurance and retirement plans can be changed any time. Often, all that is necessary is the completion of a simple form your insurance company or retirement plan administrator can provide you upon request.

VI. REPLACING GIFTS WITH LIFE INSURANCE



Charitable gifts of life insurance policies and their proceeds have been previously discussed. Another use for life insurance in charitable planning is to use this financial tool to arrange for a charitable gift to be “replaced” for your heirs in your estate.

For example, you might use the tax savings and all or a portion of the income generated by a charitable remainder trust or other gift plan to purchase life insurance benefiting your heirs. That way, your donor advised fund at Hope receives the contribution you intend, while your heirs enjoy their inheritance—often at little cost to you or your heirs. Check with your life insurance professional or other advisors for additional information regarding this option.

VII. USING YOUR HOME AS A GIFT

Give Property While Continuing To Enjoy its Use

The most valuable single asset many people own is their home. Have you ever considered using it to fulfill your giving desires? Did you know there’s a way to give your house but

still live there as always?

Using what is known as a life estate arrangement, you make a gift of your home or farm now but retain the security of knowing you may live there as long as you wish. You also retain all the rights and responsibilities of ownership.

You receive a charitable income tax deduction for part of the value of the home or farm immediately.

You continue to take care of the property, pay the taxes, and even receive any income the property generates. But because you have made a gift of the property by deed, it does not pass through your probate estate at death, possibly saving unnecessary expenses and avoiding delays. The property will also not be part of your estate for federal tax purposes, resulting in what may be significant tax savings for your heirs.

VII. MORE INFORMATION FOR ADVISORS

The following is provided for donors and their advisors who would like more details about some of the giving ideas introduced in this Web Site.

A Note For Non-Itemizers

In order to receive maximum income tax benefits from your charitable gifts, you must be in a position to itemize deductions on your income tax return. What if you don't have enough deductions to qualify to itemize in a given year? By combining more than one year's charitable gifts and other deductible expenditures into a single tax year, you may be able to boost your total deductions over the minimum amount required in order to itemize. As a result, it may be possible to reap a tax benefit from otherwise non-deductible charitable gifts and other expenses (such as property taxes on a home).

Carrying Over Excess Deductions

If you give more than the deductible limits for gifts in any one year, you may "carry over" any remaining deductions to be used in as many as the next five tax years.

Giving Appreciated Property

Property that has increased in value and been held for the long-term holding period defined by law (one year and a day as of July 1999—check for current long-term holding period) is generally deductible for its current market value up to 30% of your adjusted gross income. Exception: Tangible personal property (art, antiques, collections, jewelry, for example) is deductible at full present value only if it is used by Hope in the furtherance of our tax-exempt purpose. If not (for example, if it is to be resold immediately), your deduction is generally limited to the original price paid for the property or its current value, whichever is lower.

Appraisals. To claim a deduction for certain gifts of non-cash property, you will need to obtain a qualified appraisal for income tax purposes. A "qualified appraisal" is required when non-cash property gifts have a claimed value of more than \$5,000 (\$10,000 for gifts of

closely held stock). Exception: Publicly traded securities, such as stocks and mutual funds. See IRS Form 8283 for details.

Gift substantiation rules. For all gifts of \$250 or more, donors must now have a written acknowledgment and retain it with their tax records. Such acknowledgment information should be found in letters provided you after your gift has been received. Therefore, it is more important than ever to keep any such letters among your records. You may risk having a deduction disallowed if you do not have proper substantiation.

Guidelines For Drafting Charitable Trusts

In order to qualify for tax benefits, charitable trusts should be drafted by an attorney (as should any legal document, such as a will).

To aid drafters of charitable remainder trusts, the IRS has issued specimen provisions to be included in the trust agreements. Many of these can be found in Rev. Rule. 72-395, 1972-2 C.B. 340. Other specimen agreements may be found in Rev. Proc. 89-21 and for unitrusts in Rev. Proc. 89-20. See also Rev. Proc. 90-30 through 90-33. Specimen forms for charitable lead trusts are available from research sources or from professional fiduciaries. Charitable remainder and lead trust forms that are preferred by particular fiduciaries are also typically available from them upon request.

Where Do I Go From Here?

Hope Christian Community Foundation staff members who are knowledgeable about charitable gift planning options are available to answer questions and help you and your financial and estate planning advisors explore giving methods that best fit into your plans.

We also encourage you to discuss any gift you may be considering with family members or other personal advisors. Such persons can often help you make a well-reasoned choice.

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