How to Leave a Legacy to SMART

An Overview of Planned-Giving Opportunities

As the name suggests, "planned gifts" are those for which a donor must plan ahead, taking into account financial, family, business, and/or estate considerations. Planned gifts also help donors achieve their philanthropic goals, while often providing personal, economic or tax benefits.

Note: The following information is intended to be educational. Please consult your financial or professional advisor regarding your specific situation.

Planned Giving Opportunities

Bequests are designations of assets to charity in a will. Gifts are transferred to the designated recipient after the donor's death.

Benefits to donors: Donors do not part with any assets until death. Gifts may reduce potential estate taxes.

Gifts of Appreciated Assets include securities, real estate, paintings, jewelry, and other personal properties.

Benefits to donors: Gifts of appreciated assets that have been held for more than one year are not subject to capital-gains taxes. Donors receive a charitable deduction for the full market value of the asset (except personal property, which is usually valued at original cost). Under current regulations, donors may deduct up to 50% of their adjusted gross income in a given year for gifts of cash. Other gift types have an annual limit of 30% of adjusted gross income. If donors cannot use all of their deduction in the year of the gift, they can carry it forward for up to five additional years.

Charitable Remainder Trusts (CRTs) make fixed income payments (for *annuity trusts*) or pay a percentage of trust principal (for *unitrusts)* to individuals (beneficiaries) designated by the donor. A CRT can be established for the lifetime of the beneficiaries, for a fixed term of up to twenty years, or a lifetime plus up to twenty years if successor beneficiaries are included. When the CRT matures (when all the beneficiaries have passed away or the term limit is reached), the charity receives whatever amount is left in the trust.

Benefits to donors: Donors can receive a charitable deduction for the present value of the remainder interest of the CRT and can avoid capital-gains taxes. The assets used to establish the CRT are removed from the donors' estate. Charitable Remainder unitrusts provide flexibility in income distribution and can therefore be helpful in retirement planning.

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<u>Charitable Lead Trusts</u> make either fixed income payments (for annuity trusts) or pay a percentage of trust principal (for unitrusts) to charity during the trust term. At the end of the trust term, the principal can either go back to the donor or to heirs named by the donor.

Benefits to donors: Donors can claim a charitable-tax deduction or are subject to reduced gift and estate taxes for making lead-trust gifts. Charitable lead trusts are most appealing to wealthy donors who want to pass appreciated assets to heirs without paying substantial tax.

<u>Charitable Gift Annuities</u> are simple contracts between donors and charities. In exchange for an irrevocable gift of cash, securities, or other assets, the charity agrees to pay one or two annuitants a fixed sum each year for life. The payments are guaranteed by the general resources of the charity.

Benefit to donors: In most cases, part of each payment is tax-free, which increases each payment's after-tax value. If appreciated property is donated, a portion of the annuity payment will be taxed at the capital-gains tax rate. Donors also receive a charitable contribution for the present value of the remainder interest of the gift annuity.

<u>Retained Life Estate</u> is most often a gift of a house to charity. Donors retain the right to live in or use the house for the remainder of their lives. At death, the house goes to charity.

Benefits to donors: Donors may continue to live in their home for the rest of their lives and receive tax deductions based on the remainder value of the property. The greater the age of the donor, the greater the proportion of the property value may be deducted from income taxes.

<u>Life Insurance</u> can be used as a planned gift when donors name a charity as owner and beneficiary of either an existing, fully paid, or new policy.

Benefits to donors: Donors receive an immediate tax deduction (which can reduce the net cost of the gift) for an existing policy or deductions for continuing annual premiums.

<u>Retirement Plan Assets</u> including IRAs, 401(k)s, or other qualified pension or profit-sharing plans can be given to charity by naming a charity as the beneficiary (single donor) or contingent beneficiary (a couple). The Pension Protection Act of 2006 allows a non-taxable current transfer of up to $100,000 to a charity from an IRA owned by a donor at least 70 ½ years of age. (This provision expires on 12/31/2007.)

Benefits to donors: Donors may avoid estate and income tax on assets designated to charity and may reduce potential income tax to heirs. Current assets and income are not negatively impacted for a testamentary gift of a retirement plan.

Note: Prior approval by the SMART Board of Directors' Audit and Finance Committee is required for the acceptance of gifts other than cash, traded securities and certain whole life insurance policies. For more information, please contact Neena Nuhring at 971-634-1602 or nnuhring@getsmartoregon.org.