

Give & Take

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NEWS AND IDEAS FOR DEVELOPMENT EXECUTIVES OF NONPROFIT ORGANIZATIONS

Are Planned Gifts Primarily Motivated by Tax Incentives?

by Barlow T. Mann

Here is the third article in our series focusing on myths and misconceptions in charitable gift planning.

While our income, estate, and gift tax systems all include powerful incentives to encourage philanthropic giving, it is important to remember that charitable giving in America, and in earlier cultures, preceded all of our current tax systems. Many of America's leading charitable organizations were created and continuously funded through generous outright gifts, bequests, and life income gifts, prior to the establishment of the modern federal income tax in 1913, the estate tax in 1917, and the federal gift tax in 1935.

Tax savings just one motivation

Contrary to what one might believe from reading the popular and financial press, philanthropic giving is not purely an economic activity that responds predictably to elasticity of demand and other principals of economic theory. For example, there were well-publicized studies in the mid-1980s that indicated a cut in federal income tax rates, the elimination of the non-itemizer charitable tax deduction, and the creation of an alternative minimum tax preference on the appreciation element of gifts of property would have a devastating impact on charitable giving in this country because they would effectively increase the "cost" of charitable giving. At the time economists forecast that charitable giving could decrease by as much as \$11 to \$16 billion.

In spite of the dire predictions, charitable giving actually continued to increase in the years after the Economic Recovery

Tax Act of 1981 (ERTA), the Tax Reform Act of 1986 and more recent legislation that reduced incentives for charitable giving was passed. While there can be little doubt that the heightened cost of giving did have some detrimental impact on charitable giving in America, the impact was much less than many expected.

Tax breaks or not, giving continues

During the late 1960s, there was a federal income tax surcharge on high-income individuals that placed a few taxpayers in the 91% marginal tax bracket! For persons in this bracket, the after-tax cost of making a gift of cash was less than 10 cents on the dollar. Gifts of appreciated property further reduced the cost of giving by avoiding the capital gains tax on contributed assets. There was no discernable spike in giving despite the fact that the after-tax cost of making gifts by the wealthy was next to nothing.

Since that time, there has been a general downward trend in the maximum

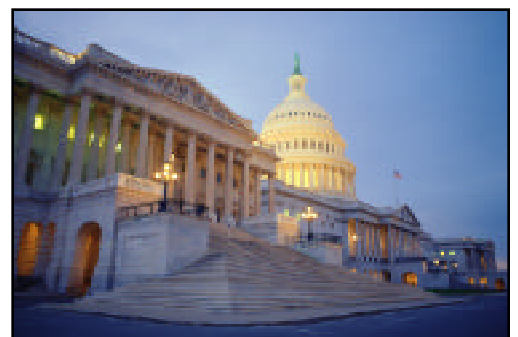
Continued on page 5

Inside

Where is the Sharpe company now? See Page 2

A candid discussion with a St. Louis gift planner Page 3

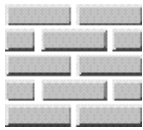
What's in a name? Maybe more than you think Page 4



Washington, D.C., will host the seminar "Major Gift Planning I - Options and Opportunities" in October. See page 7 for details.

In the News . . .

News and notes
of interest to
gift planners.



Give & Take

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IRS announces crack down on split-dollar insurance

As reported in the April issue of *Give & Take* this year, the giving technique known as “charitable split-dollar insurance” has been the center of controversy. Legislation has been introduced that would effectively end these plans that many in Congress and the Internal Revenue Service consider to be thinly veiled tax-avoidance schemes.


Now the IRS is also condemning split-dollar insurance transactions and warning nonprofit organizations to stop the practice. The IRS has threatened to challenge the tax-exempt status of charities that continue to engage in these arrangements. Furthermore, nonprofits participating in split-dollar insurance plans may find themselves penalized by the IRS through numerous penalty taxes. Charitable organizations that are considering such plans should seek expert counsel before proceeding and advise their donors to do likewise.

Source: *EOTR Weekly*, June 21, 1999

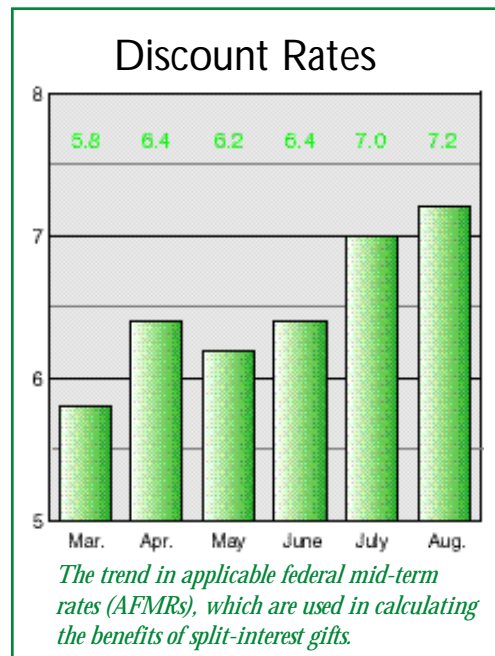
Planned gifts see significant growth in value

According to data from the Internal Revenue Service, planned gift assets in America totaled \$72.6 billion in 1997. The statistics focused on four main planned giving vehicles: charitable lead trusts, charitable remainder annuity trusts, charitable remainder unitrusts, and pooled income funds.

Significant increases were noted in all four areas. The value of charitable remainder unitrusts more than doubled from approximately \$25 billion in 1994 to \$52 billion in 1997. Over the same time period charitable remainder annuity trusts rose in value from \$4.5 billion to approximately \$8.4 billion.

In 1994 charitable lead trust values were approximately \$7.1 billion. In 1997 lead trusts had increased to almost \$10.6 billion. Pooled income funds experienced growth in assets as well—from just over \$1 billion in 1994 to \$1.5 billion in 1997. 

Source: *The Chronicle of Philanthropy*, July 15, 1999



We're moving on

Up the street, that is.

Robert F. Sharpe and Company has moved its Memphis office to new and expanded quarters a short distance from our former location.

This new venue provides us with additional space to grow so that we can better serve the needs of our clients. Please stop by and see us if you are in the area.

Please make a note of our new address (Our telephone numbers and e-mail address will remain the same):

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Gift Planner Enjoys 'Helping People See Things In a New Light'

In this month's Give & Take we talk with Ms. Deter Wisniewski, vice president for development at the St. Louis Science Center. Why did Ms. Wisniewski decide on a career in fund raising, and what has she learned in her 20-year career in development? Ms. Wisniewski shares the answers to these questions and more in the following "Gift Planner Profile."

Give & Take: How did you get started in the development field?

Wisniewski: I studied theater in college and went to work in theater management after school. But when a position came open in the theater's development office, I took it. What I valued most about theater is that it can encourage people to see things in a new light. Development seemed to be a career devoted to working with people who not just looked at life, but who actively worked at improving their community and helping people. Those things that drew me to the field still energize and inspire me.

Give & Take: What has been some of the best advice you have received in your gift planning career?

Wisniewski: Something that Robert Sharpe, Sr., said once has stuck with me. He said, "Emotion is the river upon which logic flows." Particularly in gift planning, it is important not to lose sight of the strong feelings people have for why they want to make a gift. The financial resources and planning tools are the ways and means in which people make the gift, but they are not the reasons *why* people make the gift.

I would also say that something that I really try to instill in the people I work with, both the volunteers as well as the president and staff here at the Science Center, is not to be discouraged by hearing someone say "no." For one person the timing might be wrong, or it might not be the right project; there might be a lot of reasons not to be discouraged, but instead

to ask why. While naturally I have a responsibility first and foremost to this museum, someone giving to another institution if they so choose helps our community as well. If my discussions with donors help them crystallize their thinking about their personal philanthropy and they choose to make a gift elsewhere, of course I am disappointed that they don't make a gift here, but I am very pleased that they make a gift somewhere.

Give & Take: What do you like most about gift planning?

Wisniewski: The chance to stand on the sidelines and be a coach to those people who want to make the world a better place. The opportunity to work with people who have real courage in their convictions is inspiring.

Give & Take: What characteristics do you feel are inherent in successful gift planners?

Wisniewski: I think first and foremost successful gift planners are great listeners. They are usually very articulate people. They believe deeply in their organizations and believe that the work their organization is doing makes a difference. They are willing to step back and do what is right for the donor and also still do what is right for the organization. So they are able to juggle multiple priorities. They also have a long-term view and have the long-term health of the organization at heart. There is always a balance between the needs of today and the needs of tomorrow, and good gift planners can express to donors those needs. When I look at my colleagues, they are all professionals. They are warm and caring individuals who encourage donors to do the things that are right for them while still doing what is right for the organization.



Deter Wisniewski

Continued on page 4



A Rose by Any Other Name...

by Robert F. Sharpe, Jr.

Editor's note: The following article is reprinted from the June 1987 issue of Give & Take. We hope you will find it just as thought provoking today.

What do director of development, vice president for development, director of major gifts, director of annual funds, director of planned giving, director of deferred giving, director of special gifts, legacy manager, director of stewardship, vice president for advancement, assistant to the chancellor, president, executive director, stewardship secretary, director of capital giving, associate legal counsel, director of donor relations, director of major and planned gifts, director of resource development, and last but not least, director of fund raising, have in common?

They are titles that have crossed my desk in the last few weeks. Their owners are all involved to a greater or lesser extent in

the process on encouraging individuals to support the organizations and institutions they represent.

We are constantly asked about titles by nonprofit managers, wanting to know what titles should and should not be.

Simply stated...

Clearing away the haze, a title should convey to the persons with whom you interact, preferably the donor, just what it is that you do.


Without attempting to come up with a title which fits everyone involved in fund development, we would like to suggest an appropriate title for those involved in helping donors make the significant gifts, whether current or deferred.

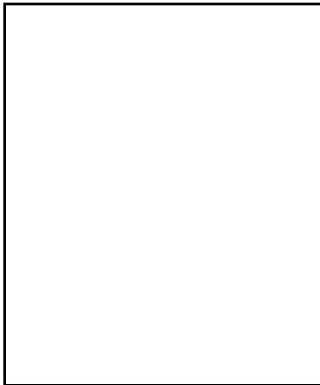
Without going into the range of reaction to be expected from a donor or prospective donor who is approached by a director of "major" or "planned" gifts, let's look at a title which may be a little more descriptive of what is actually going on.

A descriptive alternative

We are seeing many adopt the title, "Director of Gift Planning" or "Vice President/Gift Planning." A planned gift is the result, whether current or deferred. The process is gift planning.

A director of planned giving is placed in a passive role by virtue of the language. The director of gift planning is cast in a more active light and one that allows for the possibility that a "planned gift" may not even be made.

A gift planner assists planned givers; he or she does not "direct" their "planned giving." Even if you choose not to adopt the title in a given situation, consider the concept and distinction. As a result, executives working with the special donors or prospects may gain a new perspective on their role and a greater sense of professionalism while serving their constituents. 



Robert F. Sharpe, Jr., is president of the Sharpe company. He advises a number of the nation's leading nonprofits in the design and implementation of their gift planning initiatives.

Gift Planner . . .

Continued from page 3

Give & Take: Tell us about a few of the ways you acknowledge and thank your donors. Do you have any special recognition programs or events?

Wisniewski: We are getting ready to begin a recognition society for planned givers. We already have a very strong annual giving recognition program called the Albert Einstein Society. That recognizes donors of \$1,000 or more. We have made it our practice that when donors start to decrease their giving, we don't let them just drift away. We still invite them to events. We have been really fortunate to build a family among our donors. We see the same people coming to events over and over again. And those donors are telling others that they need to get involved. The core of our recognition program is the chance to be involved. For example, we do a series of 12 luncheons with our president in which he does not lecture, but instead listens to the donors and addresses their concerns. This has been extremely effective in building the type of relationships that result in the confidence necessary to sustain a "gift of a lifetime."

Continued on page 6

Tax Incentives . . . *Continued from page 1*

federal income tax rate from 70% in the 1970s, 50% in the 1980s, to 39.6% today. As the federal income tax rates fall, the cost of giving increases. For example, from the 1960s to the present, the lowest cost of giving cash has steadily increased from 9 cents on the dollar, to 30 cents, 50 cents, 67 cents, 72 cents, then down to 64 and most recently 60 cents on the dollar.

Yet, based on *Giving USA* estimates, charitable gifts from individuals have steadily increased over the years. The chart to the right shows the gradual upward trend in giving from the 1960s to today.

The more things change...

When considering planned gifts and the role of tax incentives, keep in mind that bequests via wills remain by far the largest source of

planned gifts, comprising an estimated two-thirds of the billions contributed to charity in the form of planned gifts.

Remember that very few bequest donors receive any tax benefits from their gifts. There is no income tax deduction for a bequest, no capital gains tax avoidance, and for as many as 95% of donors who make bequests, no estate tax savings. Only approximately 14,000 of the estimated 180,000 who died and left charitable bequests last year filed estate tax returns and utilized charitable deductions to reduce the size of the taxable estate.

Tax benefits are thus only one of the factors that drive donors to make charitable gifts. Gift planners should be cognizant of, and thoroughly understand, the many other layers of philanthropic motivations, such as a donor's emotional attachment to

an organization or institution, a desire to leave a legacy to the community, a sense of duty based on religious beliefs, and a host of other reasons or combinations of them.


The role of tax incentives

That said, taxes can, and do, play an important role that can affect the size, form, and timing of gifts. For example, there was a significant increase in the establishment of charitable remainder trusts after

the passage of the Tax Reform Act of 1986. Relatively high capital gains tax rates and few ways to diversify assets without paying these taxes lead to increased interest in charitable remainder trusts.

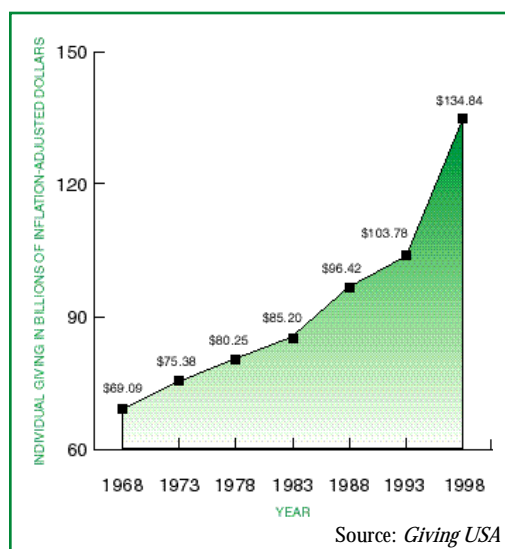
Giving USA and other reports indicate that, with the rise of investment market values, much of the recent increase in charitable giving

in America has been driven by persons making gifts of appreciated securities, on account of additional tax advantages associated with such gifts.

In coming years, as in the past, we are likely to hear conversations about additional tax cuts which will have the effect of once again increasing the cost of charitable giving. There's no doubt that if the cost of giving increases, there will be some impact on certain ways of giving. That being true, however, even with fewer tax incentives, and arguably even if there were no tax incentives whatsoever, history proves that Americans will continue to generously support the charitable organizations of their choice. 

Next month's myth: "The key to success in planned giving is through irrevocable gifts."

Very few bequest donors receive any tax benefits for their gifts.



Barlow T. Mann is an attorney and chief operating officer of the Sharpe company. He designs planned giving programs for a number of America's nonprofits, presents seminars, and authors many articles on gift planning.

Footnotes for Gift Planners

News and ideas about Robert F. Sharpe and Company's services. For more information, join us on the Web at www.rfSCO.com.



Year-end publications on the Web

Sample copies of Sharpe year-end giving materials are now only a mouse-click away. Simply log on to our Web site at www.rfSCO.com, then click on the "Donor Communications" icon. From here you will be able to review Sharpe's five year-end giving brochures as well as our new year-end giving newsletter.

From the convenience of your office or home, you can examine the publications in full-color, read the text of each brochure and the newsletter, and even print out sample copies. Brochure and newsletter pricing is also available on the Web site.

Printed samples of the year-end brochures are also enclosed with this issue of *Give & Take* for your consideration. To place an order, call 1-800-238-3253.


Booklet helps donors "reflect" on their plans

If you are looking for a way to tell your donors about the many benefits of

effective charitable gift planning, you may want to consider the Sharpe booklet "Reflecting on Tomorrow." This publication offers a look at several popular gift plans that donors may want to consider as they make their long-range plans.

The booklet focuses on how planning today can enhance a donor's future financial position while also allowing him or her to make meaningful charitable gifts. The nine planning opportunities described are followed by easily understandable examples that show how the plan could benefit a donor and charitable organization.

The final section of "Reflecting on Tomorrow" briefly discusses income, estate, and gift taxes and how they can affect the timing and size of gifts, as well as how donors can benefit from tax savings when they plan carefully.

For more information or to place your order, e-mail info@rfSCO.com or call 1-800-238-3253. 

Gift Planner . . . *Continued from page 4*

***Give & Take:* Can you tell us about a gift you have been involved in planning of which you are particularly proud?**

Wisniewski: The most interesting gift I have worked on was one that I helped plan with a donor whom I never met in person. I talked with him on the phone every day. Securing this gift was really a team effort.

The donor was an engineer during his working years and wanted to do all the gift calculations by himself. He was very detailed. We did phone conferences with our investment manager and our vice president of finance. The donor ultimately funded two types of trusts, a unitrust and an annuity trust. He was so convinced that with the good counsel he was getting from us that he could forgo obtaining his own counsel. I actually had to tell him that he had to get his own advice, which he did.

The human side to this story is that we talked on the phone literally every day for months and months. The first thing I did every morning when I went in to the office was call this donor. And he ended up giving the organization three-quarters of his estate.

A volunteer who worked in the development department here at the Science Center for at least ten years made another gift that touched me quite personally. She had cancer for the last year of her life, but she continued to come in to work even though she was weak and

Continued on page 7

Training Update

Major Gift Planning I - Options and Opportunities

In two concentrated, information-packed days, presenters Robert F. Sharpe, Jr., and Jonathan G. Tidd, Esq., discuss the most important facts gift planners need to know to successfully guide their organizations into the 21st century. By linking their knowledge and over 40 years of combined experience, Sharpe and Tidd lead participants through a comprehensive training experience.

Make sure you are prepared to meet your donors' needs in the future by attending this popular seminar. Registration is always limited to allow for more interaction among participants and instructors.


Major Gift Planning II

For the more experienced gift planner there is "Major Gift Planning II," which focuses on applying various planning tools to help donors meet multiple goals while

making significant gifts. A working knowledge of various gift planning vehicles is assumed. Special emphasis is placed on the impact of recent tax legislation and investment market conditions.

Instructors Robert F. Sharpe, Jr., and Jonathan G. Tidd, Esq., pay particular attention to the practical challenges facing today's fund gatherers.

Planned Giving When That's Not All You Do

If you're responsible for more than planned giving, this one-day seminar will help you focus your efforts. "Planned Giving When That's Not All You Do" is designed to broaden the knowledge of gift planning throughout your organization, from the CEO or president to the support staff who may be first on the phone with donors. Your staff can become some of your best planned giving advocates once they understand its benefits for your donors and your institution. 

Seminar Training Dates

Major Gift Planning I

San Francisco
September 9-10

Washington, D.C.
October 28-29

Major Gift Planning II

Chicago
December 13-14

Planned Giving When That's Not All You Do

Miami
November 15

Multiple registration discounts are available. For more information or to register, please contact the Sharpe company Phone 1-800-238-3253, ext. 360; Fax (901) 761-4268; Web site www.rfsc.com; E-mail seminars@rfsc.com

Gift Planner . . . *Continued from page 6*

couldn't do very much at that point. She was a wonderful lady and she left a generous bequest to the Science Center. It has touched a lot of people here, especially the staff and other volunteers who worked with her.

Give & Take: How do you deal with the loss of volunteers and donors who are close to you?

Wisniewski: I am always saddened when a donor or other friend of our institution dies. But the best advice I can give is that as gift planners we must maintain our professional distance. We can't lose sight of the fact that we are representing our institution. But I also think it is very important not to harden ourselves to those inevitable losses. Treasure the time that you have with the people you work with. In any business I think you form attachments, but in our particular area of work most of our close relationships are with older people. But those of us who work in gift planning get so much from working with people who care this much about our organizations and our community, every day is astonishing. There aren't many fields where you get to work with people who care that much all of the time. It is truly wonderful. 