

## Countdown to Estate Tax Changes

by Robert F. Sharpe, Jr.

Throughout the estate and financial planning community, preparations are under way to help Americans take advantage of the first steps in the scheduled reduction and eventual elimination of federal estate taxes enacted as part of the major tax law changes earlier this year.

Note the initial changes in the law which take effect on January 1, 2002. See the chart at right. Beginning next year, the amount that can be given to others during lifetime or at death will increase almost 50% from \$675,000 to \$1 million. But note that while the amount that can be left to heirs on a tax-free basis at death will increase over time, there are currently no plans to increase the amount that can be given to loved ones during life beyond the 2002 increase.

For this reason, many persons will be encouraged to take steps to maximize the benefits from the additional \$325,000 in tax exemption amounts that will be available to them in January. Remember this amount is *per person*, so a married couple can transfer an additional \$650,000 tax free to loved ones beginning next year.

### Charitable opportunities

Looking forward to next year, it is important to keep in mind there are a number of ways that donors can use traditional planned giving tools to make significant gifts while also effectively increasing the amounts they can pass to loved ones tax free under the provisions of the 2001 tax act.

#### Inside:

- Are you checking up on estate settlements? p. 2
- Headmaster says fundraising is a primary responsibility. p. 3

### MAXIMUM TAX-FREE AMOUNT

Year	Estate Tax	Gift Tax	Maximum Rate
2002	\$1,000,000	\$1,000,000	50%
2003	\$1,000,000	\$1,000,000	49%
2004	\$1,500,000	\$1,000,000	48%
2005	\$1,500,000	\$1,000,000	47%
2006	\$2,000,000	\$1,000,000	46%
2007	\$2,000,000	\$1,000,000	45%
2008	\$2,000,000	\$1,000,000	45%
2009	\$3,500,000	\$1,000,000	45%
2010	No Tax	\$1,000,000	35%*

Note: Estate tax is eliminated beginning in 2010, but provisions of new law call for repeal of all changes unless re-enacted before the end of 2010 so repeal may be effective for one year only.

### Giving a child a start

For example, suppose George G., age 57, would like to make a major gift but would also like to give a 25-year-old child a "start in life." The donor has already used the \$675,000 gift tax exemption amount that is currently available to him to fund trusts that own insurance on his life for the purpose of payment of estate taxes. George owns \$1 million worth of securities that have greatly increased in value but yield no income. If he gives the securities to his child next year, as much as \$300,000 could be due in gift tax, even after taking into account the additional \$325,000 in exemption that will be available at that time.

On the other hand, George could create a charitable remainder annuity trust that would pay a fixed amount of 5%, or \$50,000, per year for eight years to the child. The donor would enjoy a chari-

## Planning Matters



Maximize  
estate  
settlements  
before end  
of year.

During good economic times, it may make relatively little difference if an estate or trust distribution takes twelve months or twenty-four months. In lean times, however, when funding may be harder to come by, it is important that the process of making certain estate gifts are distributed in a reasonable amount of time receives extra emphasis.

When there is general economic expansion, growth in asset values can make it possible to actually distribute more than an estate was worth at the death of a donor. In such cases, dividends or interest income can also be more than sufficient to cover the expenses of administration. In times of low interest rates and slower or no growth in asset values, however, estates tend to stay open longer, and fees are more likely to reduce the amounts finally distributed from an estate. This can have an especially significant impact on residuary bequests—often the largest ones received by charities—as the growth or reduction in estate values is fully reflected in those bequests.

In the current environment, when other gift sources may not be as certain, it is more important than ever that gifts from estates be received as quickly as possible. Consider, for example, instances of large estates reported in the November 1, 2001 issue of *The Chronicle of Philanthropy*:

- Three New England institutions will share an \$86 million bequest from a former stockbroker who died this past August.

- An editorial cartoonist for the *Washington Post* who passed away in October left over \$50 million to charity.

- The second of two sisters who passed away in January left \$18.4 million to a school they attended. One was a former government employee, while the other was a teacher and stock market investor.

At 6% interest, the cost of delay in receipt of the above mentioned bequests to the recipient organizations would be \$770,000 per month! The difference between receiving the bequests in one year versus two is \$9,240,000, and if it took three years to receive the bequests instead of one, the cost of the “float” is \$18,480,000.

As the saying goes, “time is money,” and that is certainly true when it comes to the reasons to have adequate oversight of estate administration where charitable dispositions are included. Experience shows that organizations with systems in place to monitor the estate settlement process will tend to receive full or partial distributions sooner than those that do not.

While a complete discussion of the steps involved in the effective administration of estates is beyond the scope of this article, here are a few tips that may help speed up the distribution and maximize the amounts received:

- Pay special attention to residuary bequests, i.e. those that leave amounts to charity after leaving specific amounts to others. As these bequests can not be received until all expenses are paid and the estate is otherwise ready to close, these often take the longest time to settle. After a reasonable time period, 18 months for example, it may be wise to begin making regular inquiries as to the status of the bequest.

- Review settlement sheets. If your bequest comes from the residue, pay special attention to sales of real estate and other assets that are not sold on public exchanges.

*Continued on page 5*

### Give & Take:

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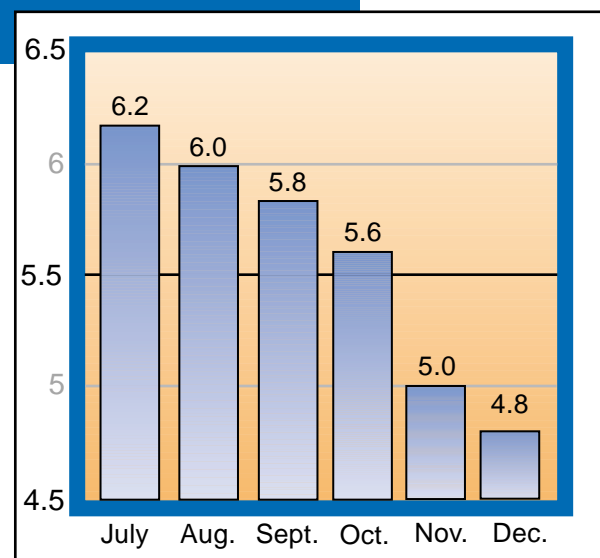
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### Discount Rates



The trend in applicable federal mid-term rates (AFMR's), which are used in calculating the benefits of split-interest gifts.

# Headmaster Takes Lead Role in Development Efforts

*In this “Gift Planner Profile” we speak with George Elder, headmaster of Lausanne Collegiate School in Memphis. Dr. Elder discusses an unexpected gift the school recently received and explains why he takes an active role in fund-raising efforts.*

**Give & Take:** How long have you been a headmaster? How long have you been at Lausanne?

**Elder:** This is my 25th year as a headmaster. I have been at Lausanne for 10 years. It is marvelous. It is very independent in its thinking with a huge commitment to diversity. More than 20% of our students are of color. We have students from 25 nations. So our school is a rich community with an international flair. Lausanne offers a very rigorous academic program with great support for the kids.

**Give & Take:** As a headmaster, how do you see your role in the school’s fund-raising efforts?

**Elder:** We have two people in our development office, but I am sometimes the point person for Lausanne’s development efforts. People like to give money to the person who is going to spend it. And there’s a sense of trust that is necessary when people give what they have worked for or inherited and maintained. They must trust that their gift is going to be appropriately used and prudently spent and that it is going to make an impact on the students and the program. That message is best heard from the leader of the school, who shapes the program and the academics, and develops with the board of trustees an overall long-range plan and vision for the school.

Donors like to sit down and talk with me because I am easy to talk to and they can see my passion for the school. My trustees also help with development work. They give generously to the school and they come with me on calls, and make their own calls as well. Clearly I spend a significant amount of my time winning friends and influencing people to make sure that Memphis enjoys a school like Lausanne.

**Give & Take:** With an international donor base you have probably learned quite a bit about how different cultures react to fund-raising efforts.

**Elder:** Yes, and that has been a bit of a struggle. There are cultures that are very different from the American culture. Americans have been taught to share the wealth and give willingly of one’s hard-earned resources without gain coming back. For many cultures, it is very foreign to give at all. I think that because of our commitment to diversity and international flair, it reduces somewhat the pool of potential donors. We are trying to educate our parents and friends about the funding it takes to run a school like Lausanne. But many of the people who are from different cultures feel like they pay a significant tuition and that should be enough. But in the American educational system, we try to keep the cost within the reach of as many people as possible. That is why we ask for gifts and philanthropy to make up the difference so more people can reach for a fine, quality education.

I feel that my job is not only to ask for gifts for the school, but to make sure the donors enjoy giving. I want them to feel good about giving and know that we appreciate what they are doing for our children and for our school. I also make sure that donors are honored in a significant way and that it is a lasting thing.

Some donors tell me they don’t want to put their name on anything, but I encourage them to change that attitude. If their name is on the door, I tell them that it is inspiring to let people know who believes in us.

I have never been in the position to give at the level of these donors. But I think it would be such great fun. And I want them to see it as fun. I want them to know that their gift means something to me personally as well as to the students, parents, and future generations.

**Give & Take:** Tell me a bit about a significant gift you recently received.

**Elder:** I received a call from Bill, one of our parents, who has two daughters here, a junior and a senior. He said he wanted to do something for the school and he had heard from his eldest daughter that there may not be a senior lounge this year, which has been a tradition for many years. I told him we were



George Elder

## Countdown...Continued from page 1

table deduction for the year of the gift of approximately \$675,000, leaving a taxable gift to the child of \$325,000. This amount would be offset by the additional gift tax exemption amount available to the donor on January 1, 2002.

If the funds in the trust earn a total return of 7%, more than \$1.2 million should be available for charitable use in eight years. George is thus able to make a very meaningful charitable gift while providing assistance to his child over time.

Amount	Payout	Years	Taxable Gift
\$1,000,000	8.50%	10	\$323,000
\$1,000,000	8.00%	11	\$323,000
\$1,000,000	7.50%	12	\$323,000
\$1,000,000	7.00%	13	\$330,000
\$1,000,000	6.75%	14	\$319,000
\$1,000,000	6.35%	15	\$328,000
\$1,000,000	6.15%	16	\$321,000
\$1,000,000	5.90%	17	\$322,000
\$1,000,000	5.70%	18	\$321,000
\$1,000,000	5.50%	19	\$323,000
\$1,000,000	5.30%	20	\$327,000

### Providing a future inheritance

Harold and Barbara T. do not want to provide much in the way of current financial assistance to their two children, both in their mid-twenties, but they would like them to both receive \$1 million from them when they are in their forties, some 20 years from now. They would also like to fund a major project for a charitable interest they enjoy supporting. They are pleased to learn that they can place \$2 million in charitable lead trusts that will pay 5.25%, or \$105,000, annually for 20 years. They will be deemed to have made a taxable gift to their children of approximately \$650,000, the additional amount they can give their children on a combined basis free of tax after January 1. Through wise use of the additional gift tax exemption amount to which they are entitled, they have provided for gifts to charity totaling \$2.1 million along with tax-free gifts to their children of \$2 million or whatever the trust assets are worth at the time they are received in 20 years.

Note in the chart above the payout amounts and time periods necessary under the November 2001 discount rate of 5.0% to pass \$1 million tax free over various time periods while resulting in a taxable gift that is approximately equal to the \$325,000 additional amount allowed as of January 1, 2002.

### Other options

Another option one might consider is a gift annuity for the benefit of a parent or other loved one. It is possible, for example, to provide for a gift annuity of up to \$625,000 that

would pay an income of nearly \$59,000 per year for life to an 82-year-old parent while reporting a taxable gift of \$325,000.

### Communicate with donors

As the new year approaches, there will be no shortage of information available to donors from financial services providers who will be offering a variety of strategies to maximize the benefits of the new \$325,000 gift exemption. It is up to charitable gift planners to point out the benefits of the plans outlined above that feature wonderful benefits to loved ones while resulting in a significant charitable gift.

The charitable remainder trust and gift annuity opportunities outlined above not only feature gift and estate tax benefits, they also afford donors substantial current income tax deductions and the full or partial avoidance, or delay, of capital gain tax that would otherwise be due on the sale of assets used to fund the gift.

The best prospective donors for considering such plans are generally those who have substantial means and who have already indicated their intention to include one or more charitable interests in their will or similar plans. Through the use of lead trusts, gift annuities, charitable remainder trusts, and similar plans, they can "accelerate" a bequest that may or may not afford estate tax savings, depending on future actions by Congress. The message should be to act now to assure maximum tax and other financial benefits for a gift they have already decided to make in the future. Their funds can thus be put to work today taking care of loved ones, while assuring their charitable desires will be met in what may be a more timely manner. G&T



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.

## Planning Matters...Continued from page 2

Remember that every dollar that is not received because of a “below market” sale price reduces the charitable bequest.

- Pay attention to legal and executor fees. Again, if the charitable bequest comes from the residue and other heirs receive specific amounts, only the charitable legatees may have a monetary interest in making sure fees are reasonable. Statutory fees that a court will regularly allow without question can be out of proportion in some cases to the amount of work actually performed.

- Make calls to executors of all estates that have been pending for a period of time at the end of the year. It may be possible to receive a partial distribution prior to the end of your fiscal year.

These steps can not only help to minimize problems with the estate settlement process, but can speed the

process up as well. As this year comes to a close, take action now to assure the most bequest income possible, and make a New Year’s resolution to ensure that your organization is monitoring estate distributions in a consistent and resolute manner. [G&T](#)

### New Seminar

“Managing Planned Giving Relationships” includes special attention to the importance of working with advisors to expedite the estate settlement process. See page 7 for more information.

## Headmaster ...Continued from page 3

planning on having one but we haven’t gotten to it because we were doing so much renovation. He said he would like to give us \$10,000 to move the senior lounge project along. I said that would be great. So we set up a meeting to finalize the gift. On the day we were to meet, he canceled. So we scheduled another meeting. He canceled that as well. By this time I thought the gift was probably not going to materialize. But we set up another meeting, and he showed up.

I started thinking that if he had \$10,000 to give, that perhaps there was more possibility there. And so I thought of some other needs of the school that he might be interested in. Bill came to the meeting and he gave me the \$10,000 check. I told him that we would probably not need the entire \$10,000 for the senior lounge. He told me that was wise and suggested that I use the remainder of the money where it was needed most. I told him I was thrilled with the gift, and I wanted to let him know about some other needs of the school.

We are about to open a new science center, and in that building we needed a few donors to name some of the labs for a \$100,000 gift. Bill wasn’t really interested in the bricks and mortar type of gift, but he said he would like to help students that couldn’t afford it to come to school at Lausanne. He said the school had done wonderful things for his children and he wanted to spread that to others. He asked how much that would cost, and I let him know that endowing a scholarship like that would take about \$200,000 to earn the \$10,000 a year tuition from interest. He said he wasn’t ready to make that kind of commitment, but that he would give \$100,000 and pay the tuition each year for

one student until the \$100,000 grew enough until the interest every year could pay for that tuition. I was overwhelmed. I thanked him profusely and I told him that he would indeed change the life of the child who received this scholarship.

I then asked if he had a minute to tour the new lounge and Shockey Science Center. The first room we walked into was the lobby and I explained that this would be an area where the children could have wireless internet access to do their research. I told him that eventually this lobby area would be filled with furniture but that we had to do some cutbacks and this would come later. Bill asked how much the furniture cost, and I told him \$8,000. He said order it.

Afterward I told Bill that his generosity was just unbelievable. He said that he had been very successful in life and wanted to give back what he could. This gift had nothing to do with anything that I said. It was simply this man’s desire to give in accordance with his religious beliefs and return something to a school that had meant something to his children.

*Give & Take: The media has been reporting doom and gloom for charitable giving this year. How have your fund-raising efforts fared this year?*

**Elder:** We are well above what we were this time last year, and we expect to end the year way up. I think that the media sometimes focuses on the negative news that is out there, in good times or bad. So we are not paying a whole lot of attention to that. We know and are confident in the kind of program that we are offering our children. And we believe that it is absolutely vital community and this country that we

## Footnotes



News and ideas about Robert F. Sharpe and Company's services.

### **2002 giving guide available**

Charitable giving has been in the spotlight this fall and it is important that your donors be reminded of how vitally important their gifts are to you. Consider the opening paragraph of **"Your Guide to Effective Giving in 2002"**: *"Charitable gifts remain an important and fulfilling way to take action that can help shape the world around you. Your gifts are a tangible reflection of your beliefs, values, and concerns and can serve as an example to others."*

Many donors may have held off making larger gifts in the fall of 2001 due to economic uncertainty and other factors. For this reason and others, early 2002 may prove to be an especially important season for giving, and may set the trend for the remainder of the year.

"Your Guide to Effective Giving in 2002" is now available to help in the process of showing donors what to give, when to give, and how to give early next year. Revised and updated for use in 2002, "Your Guide" is designed to give donors an overview of the most popular current and deferred gift planning techniques. With emphasis on the form and timing of gifts, your donors will find the information they need to help them make gifts in the most cost effective manner for them.

Special attention is given to how to make gifts of investment assets in a fluctuating market. Helpful examples show donors what to do depending on whether they believe their investments will increase in value, decrease, or maintain their value.

### **Bridging current and deferred gifts**

The second section of the booklet features brief explanations of the most popular ways to make charitable gifts as part of a donor's long-range financial and estate plans. Gifts via bequests, life insurance, retirement plans, charitable trusts, and other means are featured along with a number of examples.

### **Two cover options**


This year, "Your Guide" is available in two cover options. In addition to a version available in the same format as the complete library of gift planning booklets available from Sharpe, the booklet is also available in

an attractive full-color format. A copy of the new full-color booklet is enclosed for your information and review.

### **Who should receive it?**


Consider using "Your Guide" as an information insert in acknowledgments for gifts made at the end of 2001, or as the centerpiece of a special mailing at the beginning of 2002, perhaps accompanying an annual report to donors. Others have used "Your Guide" as a handout at donor seminars and other gatherings, and to respond to those who request information about ways to make gifts.

### **Act today**

Orders received before the holidays can be on hand in the first weeks of January. Prices are based on total quantity ordered, so see the enclosed order form for other booklets you may need to round out your library of information for next year. All Sharpe publications reflect 2001 tax law changes. Please call 1-800-238-3253 for more information or to place an order. 

## Headmaster ...Continued from page 5

produce these kinds of kids. And we are going to keep doing it. So we are going to continue to talk to the parents and friends of the school about our needs.

Since September 11 it has been a difficult time. The children have raised money for Afghan children as President Bush requested. And our parents are pulling together as well. Many, like Bill, are giving us more than they have ever given before. And I don't believe it is because they have more money this year. I think it is that they realize that some are going to be hurting more this year and won't be able to support Lausanne at the same level as they may have before. They see supporting the school as a way to support their country and make up for those that may not be able to give this year. 



# Training Update

## *An Introduction to Planned Giving*

For a comprehensive, in-depth training experience, consider attending Sharpe's 3-day seminar "An Introduction to Planned Giving."

Presenters Timothy Sharpe, Barlow Mann, and Phillip Adcock combine their experience to guide participants through the basics of charitable gift planning, from detailed explanations of gift planning techniques, to organizing and implementing an effective gift planning program, to communicating benefits of more effective charitable gift planning in the most efficient manner for your constituency.

Empower yourself with a wealth of gift planning knowledge that your donors will appreciate and that will help your organization or institution benefit from the unprecedented intergenerational wealth transfer that is now on the horizon. This seminar is especially helpful for those who are beginning their career in gift planning or have multiple responsibilities and are charged with incorporating gift planning capabilities into other development efforts.

## *Major Gift Planning I*

In two concentrated, information-packed days, presenters Robert F. Sharpe, Jr., and Jonathan G. Tidd, Esq., address issues of vital importance to those charged with structuring major gifts to their organizations. By linking their knowledge and over 40 years of combined experience, Sharpe and Tidd lead participants who possess a basic understanding of gift planning tools through a comprehensive training experience designed to help them best utilize their skills in today's environment. Registration is limited to allow for more interaction among participants and instructors.

## *Major Gift Planning II*

Designed with the more experienced gift planner in mind, "Major Gift Planning II" focuses on the skillful use of gift planning tools to help donors meet a variety of personal goals while making significant gifts. A working knowledge of various gift planning vehicles is assumed.

Instructors Robert F. Sharpe, Jr., and Jonathan G. Tidd, Esq., emphasize the impact of recent tax legislation and investment market conditions and ways to "salvage" gifts that might otherwise not be completed.

## *Managing Planned Giving Relationships*

**NEW**

Someone has asked for information about a planned gift. What is the next step? How do you use the telephone, written correspondence, personal visits, and other communications in ways that are appropriate, tasteful, and effective?

These and other topics will be explored in a new seminar devoted to the process of developing and managing effective planned gift relationships. Beginning with how to handle initial requests for information, this seminar will also focus on what to do before, during, and after a personal visit.

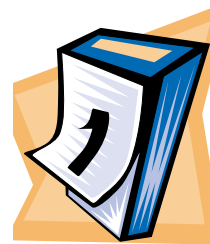
Also included is an exploration of various ways to work most effectively with donors' advisors to help complete planned gifts.

Special attention will also be given to the process of building and maintaining relationships with the heirs of benefactors after a legacy has been received.

Presenters with decades of combined experience will share their insights regarding ways to build meaningful relationships, including helpful case studies and demonstrations of successful techniques.

Designed to complement "An Introduction to Planned Giving" and "Major Gift Planning I," this one and one-half day session follows those seminars in selected cities. Special tuition rates are available for concurrent or previous attendees of Sharpe seminars. **G&T**

Multiple registration discounts are available. For more information or to register, please contact the Sharpe company.  
Phone 1-800-238-3253, ext. 5360  
Fax 901-761-4268  
Web site: [www.rfsc.com](http://www.rfsc.com)  
E-mail: [seminars@rfsc.com](mailto:seminars@rfsc.com)



## Seminar Training Dates

An Introduction to Planned Giving  
Orlando

December 10-12

Memphis

January 28-30, 2002

Washington, D.C.

February 18-20, 2002

San Francisco

March 4-6, 2002

Major Gift Planning I  
Los Angeles

January 21-22, 2002

Chicago

March 11-12, 2002

Major Gift Planning II  
Washington, D.C.

December 10-11

Tampa

February 4-5, 2002

Managing Planned Giving Relationships  
Washington, D.C.

February 20-21, 2002

Chicago

March 13-14, 2002