

What Gift Planners and Donors Are Saying About New Tax Law

With the Economic Growth and Tax Relief Reconciliation Act of 2001 now in effect, many are wondering just what impact this new tax law will have on charitable giving in America. *Give & Take* decided to ask a panel of experienced gift planners and board members/donors to share their thoughts on the tax law changes.

Give & Take: How do you think this new law will affect charities?

Good: I think it will have very little negative impact on charities. I think the charitable intent of the individual is the most important factor. This does not really change a great deal except that with the elimination of tax on a lot of estates that don't total over \$1 million per person or \$2 million per family, there will be more for the heirs and there should thus be little or no reduction in the charitable dimension of these person's plans.

Give & Take: What have you been hearing from donors about the new tax law?



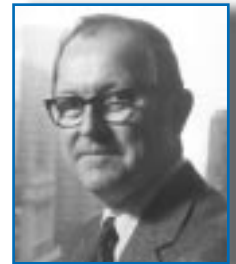
Amelia Montjoy

Montjoy: Our donors have not called with questions about the new tax law. My hunch is that there is still a great deal of confusion regarding the law and that people do not understand it well enough at this point to ask questions. This will

change now that in-depth analysis of the law is reported in the media. Most donors have been taking a "wait and see" attitude toward charitable remainder trusts and certain other planned giving vehicles over the past several months. While many realize their estate will now be exempt from estate taxes, I don't think most understand that the estate tax could return.

Give & Take: As a philanthropist, could you share how this law will impact your own personal plans?

Wendt: Tax laws have a minor impact upon my estate plans and current distributions of assets. I do not want my relatives to be subject to whatever the taxes are, but I also want to take care of charities in which I have an interest. But it was the charities that had to give up the tax portion that might be required from my estate. In my case, anything that reduces the estate taxes will increase the amount that goes to charity rather than the other way around!



Frank Wendt

Give & Take: What affect do you think this new law will have on capital campaigns?

Bendorf: It's a little early to tell. Whatever impact there is actually started well before the actual approval of the current law changes. For example, we could sense uncertainty beginning last fall when estate tax reform was passed and subsequently vetoed by then President Clinton. It's kind of like the stock markets, where prospective good or bad news seems to get factored into planning long before it becomes reality. In the



Carl Bendorf

Inside:

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- Did the new tax law make any of your publications obsolete? p. 5

Planning Matters



Gift and estate taxes part company under terms of new tax act.

The Economic Growth and Tax Relief Reconciliation Act of 2001 (EGTRRA) made a number of significant changes in the way that estate and gift taxes are applied. Until the recent changes were enacted, federal tax law had, since 1976, approached gift and estate taxes on a 'unified' basis. This meant that the same rates of tax applied whether gifts were made during lifetime or at death. For the year 2001, for example, a person can give away up to \$675,000 during life, or as part of distributions from an estate, completely free of federal estate or gift tax.

Under the terms of EGTRRA, however, the system will soon be changing. Beginning in 2002, the amount that can be given away during lifetime will be raised to \$1 million. Amounts that can be left at death will also increase to this level and will increase further in 2004, 2006, and 2009. The federal estate tax is set to be completely repealed in

2010. The gift tax exemption will, however, remain frozen at the 2002 level of \$1 million, even after repeal of the estate tax. For the years 2010 and beyond, the federal gift tax is scheduled to be the same as the highest individual income tax rate, currently slated to be 35% in 2010 and beyond. Gift taxes will thus continue to be levied on amounts given to non-charitable recipients that are not otherwise exempt from tax due to annual exclusions, marital deductions or other exemptions that may apply.

Note the chart located at the top of the next column that depicts the differences in the exempt amounts for gift and estate tax purposes in coming years.

This phenomenon may result in even greater amounts of property accumulating over time in the estates of older, wealthy individuals who may be able to leave property tax-free at death, but will have to pay relatively high rates of gift tax on amounts given to others prior to death. This will undoubtedly have an impact on major current and deferred gift development beginning very soon.

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.

Impact on planning

From a practical standpoint, even more attention may now be placed on ways to transfer assets to loved ones during lifetime. There are a number of ways that this can be accomplished using well-proven charitable planning techniques. Charitable lead trusts that delay inheritances, and term of years trusts that are designed to provide an "inheritance" in the form of an income

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Information for Advisors

Robert Sharpe, Jr., president of the Sharpe company, was a featured contributor to the June issue of *Trusts & Estates* magazine. To read Mr. Sharpe's article, visit www.rfSCO.com/taxlaw, then click on "Resource Links," and click on the article entitled "Charitable Giving and the Great American Wealth Transfer."

Give & Take:

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E-mail info@rfSCO.com or through our Web site at <http://www.rfSCO.com>.

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stream over time, are two ways to make gifts to others during life. Another example would be a gift annuity for the benefit of a parent or other older loved one.

In the early stages of the phase-ins provided for under the terms of EGTRRA, there will be opportunities for gift planners to point out the advantages of charitable planning to help maximize tax benefits for donors under the new law. On January 1, 2002, for example, all taxpayers who have previously transferred the entire \$675,000 they could give to others under the terms of prior law will have an additional \$325,000 available that they can give to others to round out their new \$1 million estate and gift tax exemption. There are a number of ways to use charitable gifts to maximize the amount that donors can give others under the new exemption schedule.

For example, Mary G. has been told that in 2002 she will be able to give her grandchildren an additional \$325,000 tax free as a result of increased gift tax exemption amounts taking effect on January 1, 2002. While she is pleased with this added benefit, she would like to give even more to family and also make substantial gifts to her charitable interests. She is not sure, however, that she would like her grandchildren to have access right away to any additional amount she might choose to give them. Her advisors suggest that she create a charitable lead trust. The trust will make payments of 8.9% to the charity for 10 years, after which time her grandchildren will receive the assets in the trust free of gift or estate tax. Mary finds that instead of an additional \$325,000, she is able to transfer \$1 million in this way, more than three times the additional amount she could give outright to her family on a tax-free basis today. In the meantime, she is also able to use the lead trust to guarantee the payment of an \$890,000 pledge over a ten-year period.

Other options include a \$580,000 charitable gift annuity for an 80-year-old parent or a charitable remainder annuity trust funded with \$540,000 that pays 8% per year to a loved one for 10 years. In both of these cases, the reportable gift is \$325,000, the same as the additional amount someone can give to another free of tax beginning in 2002. Keep in mind the donor also enjoys a sizeable current income tax deduction in the case of gift annuities and charitable remainder trusts.

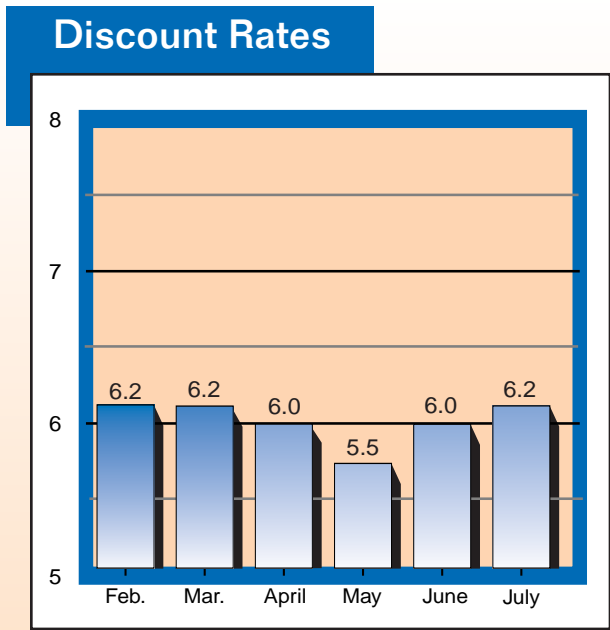
Future trends

For persons who are not sure whether their estates will be subject to federal estate tax in future years, the use of charitable lead trusts, remainder trusts, and other planning tools that are contingent to a greater or lesser extent on taxes being applicable to an estate will be increasingly common. Likewise, the use of charitable gift planning techniques to "lock in" the expanded estate and gift tax exemptions while increasing their value and/or increasing income for loved ones will become widespread.

This is the type of planning that cutting edge charitable gift planners can help their donors engage in. Charities that inform their staff and their donors of the exciting possibilities under the new law can expect to see unprecedented numbers of valuable planned gifts in future years!

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The gift tax exemption will, however, remain frozen at the 2002 level of \$1 million, even after repeal of the estate tax.
• • • • •

Editor's note: The Mary G. example is extracted from the Sharpe booklet, "Charitable Giving After the 2001 Tax Act." These examples, along with additional information on this subject, are included in session four of the upcoming seminar, "Charitable Giving After the 2001 Tax Act." See pages 7 and 8 for more information. G&T



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

New Tax Law...Continued from page 1

long run, we are extremely optimistic about an increasing spirit of philanthropy. In the short term, any major change in the tax laws seems to cause hesitation in committing to a major gift. Also, it's difficult to separate the impact of tax law changes from the recent volatility in the financial markets.

Our strategy all along has been to focus on mission and the impact of charitable gifts on our constituencies. By not over-emphasizing tax benefits in the past, we don't feel we now need to overly worry about the changing nature of those same tax benefits. Tax benefits have never been the leading edge of our marketing up to this point—by the same token, they won't be in the future either.

Of much greater importance is to keep our institution relevant to the values and dreams of alumni and friends and, perhaps most important, finding ways to communicate effectively about our relevance. Without this, the tax law impact won't mean much either way. Since the tax laws (whatever they may be) apply the same to all 501(c)(3) organizations, our biggest challenge and opportunity will always be in differentiating our mission from other worthy causes.

Give & Take: What impact do you think the new tax law will have on different gift planning arrangements, such as gift annuities?

Kerr: The bequest and gift annuity categories will become increasingly important to our Foundation. Our donor base, made up primarily of women over the age of 75, finds the highly competitive lifetime incomes associated with gift annuities very attractive.



Sterling Kerr

Small to modest size bequests (\$10,000 to \$20,000) are often given by relatively low income retirees with non-taxable estates who make up a reasonably large part of our constituency. We anticipate an increasing number of these types of

bequests as a result of increased marketing activity regardless of recent changes in the tax laws.

Give & Take: How do you see this law affecting people of different wealth levels?



Doris Pierce-Hardy

donors are motivated by their values and the majority of donations we receive are conscious-driven, not tax-driven. They just want to help someone less fortunate than themselves.

Give & Take: Does your management and non-development staff seem confused by this law? If so, what do you plan to do about it?



Mary-Gail Smith

from our donors, board members, and other constituents. Our planned giving initiative was launched about a year and a half ago, and it is critically important that we don't get derailed as a result of misconceptions about the impact of tax law changes. Providing hard data on who has given planned gifts to the Society in the past will help dispel some current fears. By far, most of the planned gifts received by the Society have been through wills from persons of moderate means on whose plans the recent changes in the law will have little or no impact. **G&T**

About the panel:

- George Good, former CEO of George-Good Corporation for 42 years, serves on the board of several charities including the Good Samaritan Hospital of Los Angeles and the Pacific Asian Museum of Pasadena. He recently retired from the national board of the American Cancer Society.
- Amelia Montjoy is director of gift planning at World Wildlife Fund in Washington, D.C.
- Frank Wendt, retired chairman of the investment firm John Nuveen & Company, is a longtime donor to a number of nonprofits who has served on many nonprofit boards and chaired campaigns for several educational institutions.
- Carl Bendorf is assistant vice president of gift planning for the University of Iowa Foundation in Iowa City, Iowa.
- Sterling Kerr, Ph.D., is director of gift planning at the AARP Andrus Foundation in Washington, D.C.
- Doris Pierce-Hardy is manager of gift planning for Habitat for Humanity International in Americus, Georgia.
- Mary-Gail Smith is national director of planned giving for The Leukemia and Lymphoma Society in White Plains, New York.

Footnotes

“Charities Decry Impact of Tax Bill”

This was the headline of a front-page article in the *Washington Post* on May 26. It is just one example of major media exposure that has been less than favorable regarding the impact of the Economic Growth and Tax Relief Reconciliation Act of 2001 on charitable giving.

What have *your* donors been reading about the new tax law and its effect on their charitable giving plans?

Make sure your organization is one of the first to communicate with its constituents the positive aspects and important planning opportunities coming about as a result of the changes in the law. Robert F. Sharpe and Company's new booklet “Charitable Giving After the 2001 Tax Act” is designed to do just that. Readers will learn about how the estate tax will be quickly phased out for most (51% of persons currently subject to estate tax will no longer be burdened by it by January 2002), lower income tax rates, and changes in the gift tax. The new booklet also includes easily understandable examples that illustrate some of the most effective ways to include charitable contributions in one's long-range planning in light of the new tax law.

You may want to send “Charitable Giving After the 2001 Tax Act” to all or a portion of your donors, as well as staff members and volunteers who may be asked questions about the tax law changes by donors with whom they come in contact. Most attorneys, accountants, and other advisors who do not often work in the charitable planning area may have only a basic knowledge of gift planning options. As a service to advisors, you may wish to share a copy of the booklet “Charitable Giving After the 2001 Tax Act” with them as well, along with a letter that explains you have sent this to your constituency and are sharing a “courtesy copy” with them. Advisors will be aware of the basic provisions of the act from many other professional resources. Take the opportunity to share with them the message they need to hear about positive gift planning opportunities.

Available in three cover designs, the booklet may be imprinted with your information on the

front and/or back covers. We expect heavy demand for these publications, so order your copies today by calling 1-800-238-3253, fax to (901) 761-4268, or visit our Web site at www.rfSCO.com. Orders will be fulfilled in the order in which they are received.

Sharpe replacement policy

All Sharpe publications that are affected by the provisions of the new tax law have now been fully revised. Before assuming your publications are out of date, you may want to check your current stock for references to the following:

- specific income tax rates, as the 39.6%, 36%, 31%, and 28% rates no longer exist and examples that use them are inaccurate as of July 1, 2001.
- estate tax exemption phase-in schedule to \$1 million in 2006 is no longer accurate.
- examples using 55% estate tax rates are accurate until the maximum rate becomes 50% on January 1, 2002. Such examples should be carefully read in context and decisions made on usage on a case by case basis.
- references to unified credits and being able to leave the same amount during lifetime as at death tax-free may no longer be accurate. See page 2 of this issue of *Give & Take*.
- references to generation-skipping taxes, rates, and exemptions should be very carefully examined, as the law has made significant changes in this area as well.

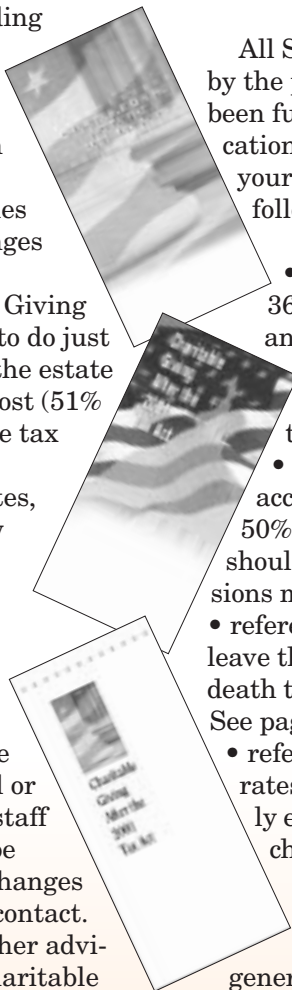
Materials that feature content that is not accurate in light of the above will generally mean that your materials are obsolete and need to be replaced with updated publications.

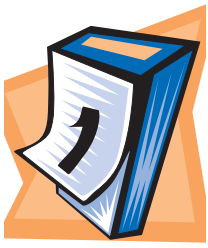
If you have affected publications on hand that you have purchased from Sharpe at any time during 2001, Sharpe will replace any unused materials at 50% of current prices. Regular imprint and shipping charges will apply.

All purchasers of affected materials will be receiving a Publications Update Status Report before August 1. This report will notify you of the specific materials you have purchased from Sharpe this year that have been affected by the new tax law, as well as when the updated materials will be available. *Continued on page 7*



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





Training Update

New Dates for Tax Law Seminar

For a comprehensive overview of the new tax law, additional dates have been announced for the special one-day seminar “Charitable Giving After the 2001 Tax Act.” Instructors Robert F. Sharpe, Jr., and Jonathan Tidd, Esq., will lead participants through the impact of the Economic Growth and Tax Relief Reconciliation Act of 2001 as it relates to charitable fund development.

Session I

The Overview of Impact of Tax Act

Robert F. Sharpe, Jr.

This session will provide the background necessary for a careful consideration of the impact of the new tax legislation on charitable giving.

Session II

The Role of Gift and Estate Taxes in the Planning Process

Jonathan Tidd

This session will offer a detailed look at certain key provisions of the Economic Relief Reconciliation Act of 2001. A review of how the federal gift and estate taxes work and how they affect both estate planning and charitable gift planning will also be examined.

Session III

Planned Giving Basics and the New Law

Robert F. Sharpe, Jr.

Learn which gift planning tools offer the greatest lifetime benefits for persons who have been told that they will no longer enjoy tax savings from gifts completed at death.

Session IV

Gift Planning for the Wealthy in Light of the New Tax Law

Jonathan Tidd

This session will examine ways in which persons of significant means and their advisors will now approach the process of estate and charitable gift planning.

Session V

Where Do We Go From Here

Robert F. Sharpe, Jr., and Jonathan Tidd

A brief discussion of suggested marketing and communications strategies in light of the changes in the law followed by a question and answer period.

Where and when

| | |
|-------------------------|------------------|
| San Francisco | August 3 |
| Chicago | August 9 |
| Washington, D.C. | August 10 |

Seize the moment

Don't let confusion and lack of information about the new law be an impediment to your staff and stifle your donors' desire to give. The role of planned giving will be more important than ever beginning right away. Take control of a new, exciting, and different giving environment created by the new tax act and help your donors plan their gifts accordingly. Registration is limited, so make your reservations now to attend this timely, fast-paced seminar. Call 1-800-238-3253 ext. 5360.

Notice to Prior Attendees

If you attended the new tax law seminar in Chicago or New York in June, you may audit the seminar again in August at no additional charge. Prior attendees may also send additional staff members from their organization and pay second person rates for each attendee. For more information about auditing the seminar, please call 1-800-238-3253 ext. 5360. G&T

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What attendees are saying about new tax law seminar

“Thank you for your timely explanation of new tax environment”-*Ed Featherstone, Associate Director, Planned and Major Gifts, Northwestern University*

“Great job. I love the notebooks.”-*Laura Hosmer, Development Officer, Massachusetts Eye and Ear Infirmary*

“This day was what I expected. Very good.”-*Rich Goode, Director of Planned Giving, Archdiocese of Chicago*

“I look forward to receiving the presentation on CD and tape—thank you. This is among the most effective presentations I have attended on planned giving. Excellent.”-*Patty Shanahan, Director of Gift Planning, Chicago Botanic Garden*

“Completely met the high expectations I have for a Robert F. Sharpe/Jonathan G. Tidd presentation!”-*Dottie Coakley, Director of Planned Giving, March of Dimes*

“Very informative and insightful for gift officers. Important information for face to face visits with major donors.”-*Rachel Dillon, Major Gifts Officer, Sarah Lawrence College*

“Thank you—both exciting and informative. This was great!”-*Lorri Greif, Director of Development and Planned Giving, Hebrew International Aid Society, Inc.*

“Incredible how you put the seminar together weeks after changes. Time is of the essence. You have done a great service for us. Thank you!”-*Jackie Comesanas, Esq., Lighthouse International*

“A large amount of information efficiently presented—a planned giving treat!”-*Kathlene Costello, Director of Planned Giving, Siena Heights University*

“Excellent seminar. Thank you! A great deal of information very effectively packaged and presented. Provided some good suggestions for communicating with donors.”-*Jean Kotzbauer, Director of Planned Giving, College of Mount St. Joseph*

“Well done! Solidified my thoughts in this area.”-*Ken File, President, Delta Tau Delta Educational Foundation* [G&T](#)

Seminar Training Dates

An Introduction to Planned Giving

Washington, D.C.
August 21-23

Chicago
October 29-31

Orlando
December 10-12

Major Gift Planning I

New York
August 23-24

Washington, D.C.
November 8-9

Major Gift Planning II

Chicago
September 6-7

Washington, D.C.
December 10-11

See www.rfSCO.com
for more seminar
information.

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For more information, delivery dates, and other related matters, please visit www.rfSCO.com/replace, or call the Sharpe Replacement Hot Line at 1-800-238-3253 ext. 5363.

Year-end giving season approaching

The upcoming fall months are traditionally the “year-end giving season” for charitable organizations and institutions. Many nonprofits receive more than half of their yearly contributions during the final months of the year.

Be prepared to help your donors make the most of their charitable giving before the close of the year with Sharpe’s year-end giving brochures. These brochures help encourage donors to make effective

charitable gifts by meeting year-end deadlines while maximizing their tax savings and exploring giving options they may not have considered before.

Year-end giving brochures incorporating the latest tax law information and gift strategies are being finalized as this issue of *Give & Take* goes to press and will be available very soon. Watch your mailbox for sample copies for your review. Please check our Web site, www.rfSCO.com, or call 1-800-238-3253 for more information or to place your order. [G&T](#)

Are You Prepared...

to meet the challenges the 2001 Tax Act may bring?

Find out how the 2001 Tax Act will affect current and deferred major gift planning both now and in the future. Prepare yourself to explain to your donors, volunteers, and staff how the new tax law grants them new freedom through reduced income tax rates, relief from estate taxes, and other important changes.

If you can't make it to a live presentation of the Sharpe seminar "Charitable Giving After the 2001 Tax Act," let it come to you. Robert F. Sharpe and Company has created a comprehensive training package with the busy gift planner in mind. The package includes:

- ▶ A complete **audio cassette** of the one-day tax seminar recorded June 29, 2001, in Chicago, featuring presentations by Robert F. Sharpe, Jr., and Jonathan G. Tidd, Esq.
- ▶ A **CD-ROM** featuring a PowerPoint file containing graphics, charts, and other visual aids used in the seminar. Also included is an easy-to-follow Word presentation with accompanying PowerPoint presentation designed for you to use to **familiarize your development staff and/or volunteers** with the major provisions of the new tax law.
- ▶ The **seminar outline** containing detailed information and charts about the 2001 Tax Act.



The Sharpe tax seminar package is an invaluable tool for those who want to understand the new tax law in order to better serve their donors. Development professionals, management and support staff, board members, and other volunteers will benefit from the condensed staff training session that is included as well.

Price: \$395. Major credit cards accepted.

For more details and to place your order for the Sharpe tax seminar package, visit www.rfSCO.com/taxlaw, fax (901) 761-4268, or call Susan Jordan at 1-800-238-3253 ext. 5307.



Robert F. Sharpe & Company, Inc.