

Looking Through the Numbers

by Robert F. Sharpe, Jr., and Barlow T. Mann

The IRS recently released data summarizing much of the information included in tax returns filed for estate tax purposes in 1998. There is a wealth of information contained in these reports that is of interest to those persons responsible for encouraging bequests and similar gifts. When read in conjunction with information recently published by the National Committee on Planned Giving (NCPG) in its report entitled "Planned Giving in the United States 2000," conclusions may be drawn that can prove helpful to those making strategic decisions regarding their planned gift development efforts.

The remainder of this article will offer an analysis of data which points to the conclusions summarized in the box at right.

First things first

The U.S. Government Centers for Disease Control and Prevention tells us that some 2,337,258 people died in 1998 (see www.cdc.gov). According to a number of surveys, including the NCPG study, best estimates are that 8% of people indicate they will include charity in their estate. Studies of probate court records have found charitable bequests contained in between 8% to 12% of wills filed for probate. This would indicate that if 8% of people who die leave money to charity, then charitable bequests would have been contained in an estimated 186,980 estates from among 2,337,258 persons who died in 1998.

According to the NCPG study, some 42% of Americans have wills. Because all of the bequests from the 8% of estates leaving funds to charity must necessarily come from those who left a will or similar dispositive arrangement, about 19% of

people who die with their plans in order can be expected to leave something to charity.

IRS data indicates that of the 2,337,258 persons who died in 1998, some 97,868 persons died with

estates over \$600,000 (the threshold for estate taxation in 1998) where the executor of the estate was required to file an estate tax return. That represents just 4% of the total number of persons who died in 1998. Of that number, only 47,483, some 2% of decedents, actually paid any federal estate tax, while the remaining 50,385 did not ultimately have to pay the tax, primarily due to the marital deduction and unified

credit amounts that were sufficient to shelter taxes that would otherwise have been due.

Of 97,868 estates over \$600,000, IRS reports for 1998 reveal that a total of some 16,983 claimed charitable deductions, amounting to 17% of estate tax returns. That number appears to tie very close-

Overview of Findings

- 90% or more of bequests to charity in terms of numbers of estates are coming from persons who did not own sufficient assets at death to be required to file a federal estate tax return.
- As much as half of the total dollars bequeathed to charity each year appear to be coming from smaller, nontaxable estates.
- Just under 50% of the dollars left from estates that *were* required to file estate tax returns came from estates that were not actually required to pay taxes because of gifts to spouses and credits that otherwise exempted them from tax.
- Some 25% of bequests from taxable estates came from estates under \$2.5 million in size.
- Over 90% of bequests come from persons who die beyond the age of 70 and nearly 75% come from persons who die beyond age 80.
- Over 95% of persons surveyed said that desire to support charity was the reason that they left charitable bequests and the desire to memorialize a loved one was cited as a motivation almost as often as the desire to save estate taxes.
- More persons said they learned about charitable bequests from charity through its published materials than any other source.

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More said they learned about charitable bequests from a charity than any other source.
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ly to the estimate of 19% of estates leaving bequests, as derived from the NCPG study. This could lead one to the conclusion that per-

sons who are not wealthy at the time of death appear to be about as charitable overall as persons who leave money to charity from larger estates. This may be instructive when considering the impact of the proposed reduction or elimination of federal estate and gift taxes.

Continuing with our analysis, of the total estimated number of people who leave money to charity (186,980), some 91% die with estates less than \$600,000, and just 16,983, or 9%, die with estates valued at more than \$600,000. Thus, in terms of estate taxation, 91% of the individual bequests to charity in America are coming from estates that are not large enough to be subject to estate taxes at the levels at which they are imposed today.

Taxable estates at death

Looking at how bequests from estates over \$600,000 break down by wealth and taxability of the estate is also of interest. Overall, \$10.8 billion was left to charity from estates over \$600,000. Recall that 51% of estates valued at over \$600,000 paid no tax due to marital and other deductions, and 49% actually had to pay tax after taking all allowable deductions.

The amount of charitable bequests was split almost equally between taxable and nontaxable estates over \$600,000, at \$5.5 billion and \$5.3 billion respectively. This is key data because it shows that half of the bequests from the wealthier Americans who die is coming from those who would not otherwise owe tax due primarily to the marital and the unified credit. Thus, in many of these cases there was actually no tax savings in the final analysis as a result of the bequests, because other deductions and credits were more than sufficient to eliminate taxes.

In terms of percentage of estates left to charity, estates over \$600,000 that were not subject to tax left an average of 7.4% of assets to charity, and the estates that *did* have to pay tax left 5.4%. Thus, the estates that were taxed more heavily left *less* in terms of percentage of the estate to charity, even though bequests could have been used in virtually all cases to reduce the taxes that were otherwise due.

To further illustrate the broad-based nature of bequests at death, some \$2.5 billion, or nearly 25% of the amounts left from estates over \$600,000, came from nontaxable estates from persons with total assets less than \$2.5 million. On the other hand, giving from the super wealthy via estates is also an important source of funds with just over 25% of the total from taxable estates coming from estates valued over \$20 million.

The IRS data combined with the findings of the NCPG and other studies seems to again point to the fact that charitable activity from estates is spread across the socioeconomic spectrum with 91% of the number of estates coming from small estates not subject to tax.

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Give & Take:

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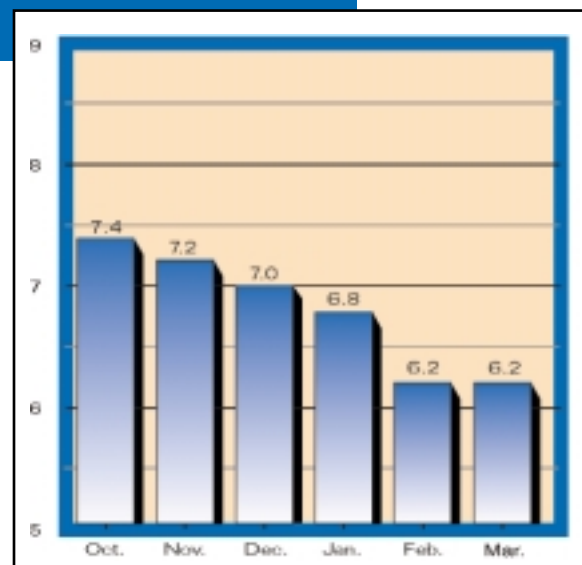
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Discount Rates



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

IRS Announces New Retirement Plan Distribution Rules

by Jonathan Tidd

In a move that is potentially good for both individual taxpayers and charities, the IRS has announced new, simpler rules governing the distributions required to be made by IRAs and 401(k), TIAA-CREF, pension and other such tax-deferred retirement plans.

The new rules, which are in the forms of proposed regulations, apply to mandatory distributions for '01, even if mandatory distributions commenced before '01.

Example 1

To see one important way the new rules work, consider an individual who has just reached age 70½ and is looking at taking her first required distribution from an IRA. (The first distribution has to be taken by April 1 of the year following the year in which age 70½ is attained.) If our IRA owner is single, she is able to use a 25.3-year life expectancy to figure her first mandatory distribution. The first mandatory distribution is, therefore, equal to the IRA balance as of December 31 of the year preceding the year of distribution multiplied by (1/25.3), or 3.95%.

Upshot: Under the old rules, the life expectancy for our IRA owner would be 15 years—meaning that under the old rules, a faster distribution rate, or 6.7%, would be required.

Thus, under the new rules, more money will tend to stay and accumulate in retirement plans during the retirement years. Meaning that eventually, there will be more retirement plan money available for distribution to children, grandchildren, and charities.

What about marrieds?

Married individuals also generally will use the new life expectancy table, with one exception. If a married retirement plan owner has a spouse who is more than 10 years younger, the plan owner can use previously existing IRS tables to determine life expectancy. Doing this will result in a longer combined life expectancy than under the new table.

Charities: It used to be that if you were married and named both your spouse and a charity as the eventual beneficiaries of your IRA (or other retirement plan), you could use only your own life expectancy, not you

and your spouse's longer combined life expectancy, to figure your required IRA distributions.

This fact made it advisable for the married IRA donor to set up a second, separate IRA just for eventual distribution to charity, so that the combined life expectancy could be used to figure the mandatory distributions from the IRA just for the donor and his or her spouse.

Under IRS's new rules, the second, separate IRA for eventual distribution to charity is not needed. The married donor can use a single IRA to provide for both his or her spouse and for charity and still be able to take advantage of IRS's new life expectancy table to figure mandatory minimum distributions. In this situation, however, it is important that the distribution to charity following the donor's death be made before December 31 of the year following the year of death. If the distribution to charity is not made before this date, the surviving spouse will not be able to spread subsequent required distributions over the spouse's life expectancy but will be required to take a complete distribution of the IRA within five years of the donor's death.

Example 2

Let's say at some point you find yourself working with an individual older than age 71, who has been taking mandatory IRA distributions for at least several years. This individual is interested in leaving 25 percent of his IRA balance to your organization upon his death.

If he now names your organization as partial beneficiary of his IRA, will he have to adjust the distribution rate for the IRA? Under the old rules, the answer was generally yes, at least in the case of a married donor. Under IRS's new rules, the answer is no. Naming your organization partial (or even total) beneficiary of the IRA won't affect the minimum required distributions.

What message should charities send now?

The basic message is that it's easier and more advantageous than ever to leave IRA and other retirement plan moneys to charity.

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Check out new IRS rules regarding retirement plans.
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Other factors at work

From the data summarized above, one might reasonably conclude that the desire to avoid estate tax is just one reason that people leave assets to charity at death. Experienced gift planners have learned over time that this is, in fact, the case. Charitable behavior as part of estate planning is motivated by a broad range of influences including politics, religion, emotion, and social theory, as well as economic factors such as the federal estate tax.

There is other guidance in IRS estate tax return data that can prove useful when planning strategic initiatives designed to increase gifts via estates. For example, IRS data indicates that there is a strong correlation between age and charitable bequests received by charities.

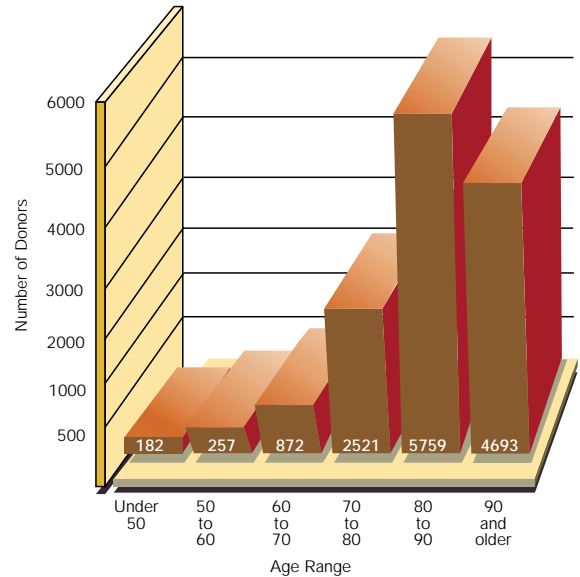
In estate tax returns for 1995, female decedents passed away at 80.9 years on average, while male decedents had lived to 75.3 years. Both lived slightly longer than the general population. See the chart to the right for the breakdown of those utilizing the charitable estate tax deduction by age at time of death.

Other studies show that persons who leave assets to charity at death tend to execute the final will that leaves the assets some three to five years prior to death on average. This data would indicate the importance of emphasizing bequests and other planned giving opportunities to persons in their sixties and older.

Gender and marital status

Gender definitely affects estate giving patterns. Women are significantly more likely to include charitable provisions than men. This is for the most part explained by the fact that women tend to live longer than men. With married couples, the first spouse to die is more likely to take advantage of the unlimited marital deduction for the surviving spouse. Overall, 13.4% of male decedents left \$5.1 billion and 24.3% of female decedents left charitable bequests of \$5 billion. Note that

Donor Age Distribution



while a larger percentage of women decedents leave assets to charity, the amount of funds per bequest appears to be significantly larger in the case of men.

Marital status also is an important factor to consider. Single females and males were the most likely to include charitable bequests. Almost half of all single females and over one-third of all single males included charitable provisions in their estate plans. In total numbers, widows and widowers constituted the largest source of charitable bequests.

Conclusion

The existence or lack of an estate tax no doubt influences the amount and timing of some charitable bequests. For those persons who give only for tax avoidance, they will undoubtedly reduce their charitable giving during their lifetime and via their estates if there is no estate tax. There may also be a relatively small group of art and other collectors and land owners who may choose not to make charitable dispositions if tax liquidity is no longer a factor.

On the other hand, for those with charitable motivation, whatever the source, if estate taxes are reduced or eliminated, there will be more "discretionary capital" available during their lifetime and as part of their estates.



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Some will choose to leave less to charity, some the same amount to charity, and early indications are that some will give more to charity during lifetime and at death, as there will be no need to “gross up” the amount left to family, and the amount that would have gone to the government can then go to family and/or charity. If tax savings at death are reduced or eliminated, more donors may also decide to take advantage of tax benefits available during lifetime through greater use of charitable remainder trusts, gift annuities, and other split interest inter vivos gifts.

The recent 2000 NCPG-sponsored study findings tend to corroborate this conclusion. The study showed that 97% of persons who responded said they had made charitable provisions in their estates out of a desire to support charity. Only 35% said they did it out of a desire to reduce taxes. By comparison, some 33% said they did it to memorialize a loved one. More persons said they learned about charitable bequests from a charity through its published materials than any other source.

While it is important to understand and encourage bequests and other planned gifts among the wealthy for tax planning purposes, all indications are that the most successful programs going forward will be those that focus on the primacy of donative intent and consistently emphasize education about the

importance of charitable bequests across a broad spectrum of their constituency. Such programs will be carefully designed to serve the needs of the older segment of their constituency. They will also place special emphasis on childless persons and those who may find themselves in the position of being a surviving spouse charged with the responsibility for deciding the ultimate disposition of assets that reflect a lifetime of work and devotion to the many causes that have enriched their lives and that of their spouse and other loved ones. [G&T](#)

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If estate taxes are reduced or eliminated, there will be more “discretionary capital” available to donors.
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Summary of Estate Tax Deductions

	Nontaxable	Taxable	Total
Estates over \$600,000	50,385	47,483	97,868
Amounts left to charity (in billions)	\$5.3	\$5.5	\$10.8
Number with charitable gifts	6,507	10,476	16,983
Average amount given	\$809,000	\$533,000	\$639,000
Percent of estate to charity	7.4%	5.4%	6.2%

New Retirement Plan...Continued from page 3

What about leaving IRA assets to a charitable remainder trust?

This is still a good plan if it meets the donor's objectives. Naming a CRT as the death beneficiary of an IRA or other retirement plan will not affect the donor's required distribution rate, unlike before. But like before, it's generally a good idea for the donor to establish a minimally-funded revocable trust that, upon the donor's death, converts to a charitable remainder unitrust, and for the donor to name the trustee of the unitrust as the death beneficiary of the IRA. This way, upon the donor's death, the unitrust comes into existence and is an identifiable beneficiary of the IRA.

Many more details

IRS's new proposed regulations contain many more rules and details regarding retirement plan distributions. This article is just a quick sketch of some of the rules and related planning considerations relevant to charitable giving. Obviously, your donors are going to want to check with their own advisors as to how the new regulations will affect their situations and choices. [G&T](#)

Footnotes



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

Prepare for memorial giving season

Mother's Day, Father's Day, Memorial Day, graduations, and religious holidays—all are just around the corner. Are you prepared? It is not too late. Robert F. Sharpe and Company offers special publications designed to help you communicate the special rewards of current and deferred gifts in memory or honor of family and other loved ones. All can be personalized for your organization quickly and conveniently.

The brochure "**Giving Through Living Memorials**" explains the many memorial and honor giving options donors may want to consider—especially during this time of year. Along with helpful information about funding memorial gifts, the brochure also includes an attached response device that allows your constituents to request additional information about gifts that honor someone special to them.

New version of "Reflecting on Tomorrow"— In addition to the brochures mentioned above, another excellent resource is the booklet "Reflecting on Tomorrow." In addition to a section on memorial giving, it features "thumbnail sketches" of a number of the most popular giving plans. "Reflecting" offers donors a general, easy-to-read review of the most popular ways to give accompanied by helpful examples.

Recently updated, "Reflecting" has been modified in terms of the language used to discuss charitable gifts. The copy focuses on general planning concepts such as fixed and variable income, and makes it possible to communicate basic benefits of gifts without committing to a specific planning tool. This feature makes it easier in some

cases to work with donors to help them and their advisors focus on the gift planning vehicle that is best for all parties concerned.

Because every giving plan can include a memorial giving aspect, you may consider providing "Reflecting on Tomorrow" to donors who request more information about ways to make memorial and honor gifts in addition to a use as a general follow-up piece for those

who request information about charitable gift planning options. Your organization's logo and address information may be included on the front and/or back cover(s). Please see the sample booklet included in this issue of *Give & Take* for your review.

To place your order for memorial giving brochures or "Reflecting on Tomorrow" or for more information, please call 1-800-238-3253.



able to communicate basic benefits of gifts without committing to a specific planning tool. This feature makes it easier in some

Newsletter gives donors overview of giving

There are many ways one can make effective charitable gifts. Are your donors aware of them?

Sharpe's newly updated "**Overview of Giving**" newsletter explains the variety of ways many donors choose to complete their gifts—from gifts of cash, stock, retirement plan assets, life insurance proceeds, and gifts by will or trust. Readers are also introduced to ways they can make a gift to a charitable cause and receive an income for life or a period of time they specify.

In light of proposed tax law changes, the back page features a positive look at what these tax proposals may mean for those interested in giving to charitable organizations and institutions and encourages donors to act today for maximum benefits. As always, newsletters can be personalized with your masthead and other information. To print a sample copy, visit our Web site at www.rfSCO.com or contact us at 1-800-238-3253. G&T

Training Update

An Introduction to Planned Giving

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

Presenters Timothy Sharpe, Barlow Mann, and Phillip Adcock 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 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

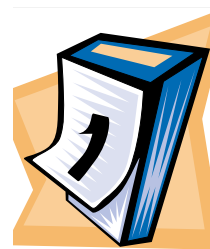
participants who possess a basic understanding of gift planning tools through a comprehensive training experience designed to help them best utilize their skills in today's environment. Registration is limited to allow for more interaction among participants and instructors.

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. [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.rfSCO.com
E-mail: seminars@rfSCO.com



Seminar Training Dates

An Introduction to Planned Giving

Memphis

May 21-23

Washington, D.C.

August 21-23

Major Gift Planning I

Charlotte

May 30-31

San Francisco

June 18-19

New York

August 23-24

Major Gift Planning II

Washington, D.C.

April 17-18

Chicago

September 6-7

New look for *Give & Take*

This month we are pleased to introduce a new format for *Give & Take*. We hope you will find that the new design will enhance the experience you have come to expect from *Give & Take*—helpful and timely information for gift planning professionals from leaders in the field of major gift development for charitable organizations and institutions.

Since its first issue in 1968, *Give & Take* has been provided as a service to many of the organizations and institutions that comprise America's nonprofit sector. As always, we welcome your comments on design as well as editorial content.



What comes after the gift?

Let your donors know how much you appreciate them and the gifts they have made with Robert F. Sharpe and Company's "Thanks for Giving" brochures. These brochures provide an excellent and cost-effective way for you to thank those who have made current gifts – and remind them of the other giving opportunities that are available to them. For your convenience, a personalized response devise is included as part of your brochure.

Remember, consistent and thoughtful acknowledgment of all donors is critical to the success of your development efforts. For more information on how to incorporate these brochures into your organization's acknowledgment system call, write, fax, or e-mail your requests to us.



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