

Back to School—Be Prepared for Gift Planning 2002

by Robert Sharpe, Jr.

As summer turns to fall, many organizations focus attention on efforts aimed at maximizing gift income for the remainder of the calendar year. Lower tax rates in coming years and other factors may combine to make the fall of 2001 an especially attractive time for donors to complete charitable gifts.

Just over the horizon, however, 2002 promises to be a very important year for planned and major gift development efforts. Key provisions of the 2001 tax act will begin to come into play then, including reduced income taxes and the first “installment” in the scheduled reduction and/or elimination of gift and estate taxes.

Revisiting formulas

Under the law in effect in 2001, for instance, a person may give up to \$675,000 to any other person during lifetime or at death free of gift or estate tax. Beginning January 1, 2002, this amount is scheduled to increase to \$1 million. As a result, many donors will be examining their estate plans, especially in cases where amounts left to spouses and other family members are based on formulas that may no longer be applicable.

For example, suppose a person with an estate of \$1,350,000 died this year and his or her will provided that the maximum amount that could pass tax-free at his or her death should be placed in what is usually known as a “family trust” that

pays income to the surviving spouse for life, with the remaining assets in the estate distributed directly to the spouse. For maximum estate tax savings, the spouse would not have access to the underlying assets in the family trust. At the spouse's death, the family would receive all of the assets in that trust tax free.

Using the above formula for asset distribution at death, under the law in effect for 2001 assets totaling \$675,000 in value (the current unified credit equivalent amount) would pass to the family trust, and the remaining \$675,000 to the spouse. At the spouse's death, if he or she left the \$675,000 to the surviving family members, under current law that amount would also pass tax free on account of the surviving spouse's unified credit amount. The net effect would be to pass \$1,350,000 tax free to the family by effectively utilizing each spouse's unified credit amount. This formula, or one similar to it, has routinely been used for many years by estate planners in attempts to reduce or eliminate the impact of federal estate taxes.

Beginning January 1, 2002, the formula described above may no longer serve the best interest of all those concerned. Unless such a distribution formula in a will or trust that serves to distribute assets at death is changed, the effect beginning in 2002 would be to distribute \$1 million to the family trust (as that is the new amount that could be passed tax free to anyone at death) with the remaining \$350,000 passing to the spouse. For those who wish to maximize what could go to the spouse, while eliminating tax on the entire estate, this may not be the desired outcome.

Under the new law, next year the spouse could instead receive \$1 million, as his or her exemption amount would presumably be sufficient to exclude that sum from taxation at death. The remaining \$350,000 would then be placed in the trust for family members with income for life to the spouse.

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Planning Matters



Review giving statistics for education.

In last month's *Give & Take* we reviewed *Giving USA's* charitable giving estimates for last year, which totaled over \$200 billion for the first time in history. Charitable bequests accounted for over \$16 billion of the total—another record.

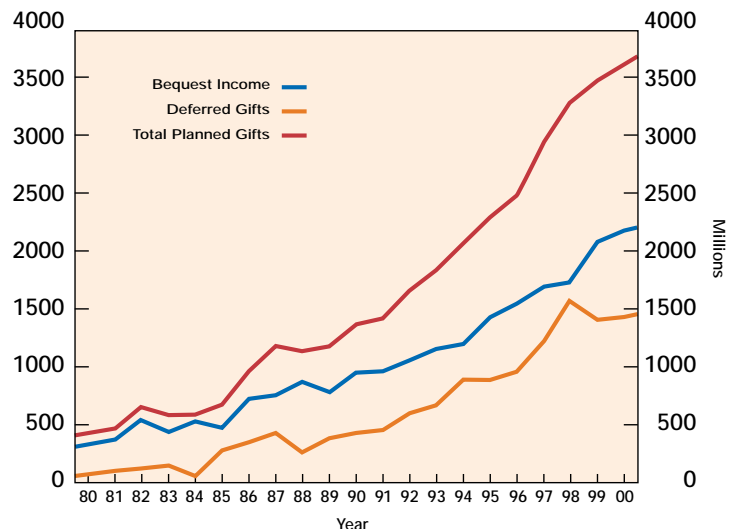
This month we will examine a similar report covering charitable contributions to higher education for fiscal year 2000 as reported in the study *Voluntary Support of Education*, sponsored by the Council for Aid to Education (CAE). America's colleges and universities received charitable contributions totaling \$23.2 billion, a \$2.8 billion increase over the prior year. This represented a 13.7%

increase and was the fifth straight year that giving to higher education experienced double-digit growth. Much of the strength of giving reported was attributed to strong stock market performance during the fiscal year that included the July 1 through December 31, 1999, period when investment markets were still at record levels. It may be assumed that current economic conditions will affect the 2001 report, covering July 2000 through June 2001. *Giving USA* reported gifts to higher education of \$28 billion for the calendar year 2000, some \$5 billion (22%) more than the CAE report, indicating that there may have been an increase in giving to higher education in the second half of 2000 after the close out of CAE figures for fiscal year 2000.

A closer look

According to CAE, almost half of all gifts to higher education came from individuals or their estates. Of the \$10.1 billion in gifts from individuals, \$2.2 billion came from bequests and another \$1.4 billion from other deferred gifts. In fact, for the past two decades, planned gifts have accounted for over one-third of all gifts from individuals to higher education.

Planned Gifts to Higher Education



Deferred gifts have steadily increased in importance since the Tax Reform Act of 1986, but have declined as a percentage of individual giving for the past two years while bequests as a percentage of individual giving have increased over the same time period. For the colleges and universities reporting both the face value and present value of deferred gifts, the present value of deferred gifts averaged 49% of the face value. Bequest totals were calculated based on actual bequests received, not future expectancies. See above.

Several factors point to the continued growth of the prospect pool for bequests and deferred gifts to colleges and universities. For example, the latest Census figures show that the over-75 age group is growing (see the August 2001 issue of *Give & Take*). Many colleges and universities have seen this trend as well on account of tremendous growth in class sizes in many cases following the second World War.

Press reports indicate that 1,200 World War II veterans are passing away every day, a 20% increase from just a few years ago. As bequests typically come from the estate of the second spouse to die, an increase in bequests from widows of these veterans may be expected in coming years.

In spite of recent economic conditions, Americans continue to hold significantly more wealth today in the form of stocks, bonds, cash, and real estate than a decade ago. Many in the 65 and older age group may be con-

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Donor Messages Offer Clues, Call for Creative Response

by Phillip Adcock

Building future bequest income begins with informing long-term donors and other constituents about ways that they can remember their favorite organization(s) in their wills or other estate plans. Unless donors make even a basic plan, no charitable gifts will occur at their passing. As a result, one of the main purposes of mailings on wills and similar gift plans is to share information designed to encourage the donor to take action regarding their future plans.

Many development executives have another goal as well: To begin a dialogue with donors. Planned giving communication efforts can serve to initiate “conversations” with some of your most interested donors. Reply devices and questionnaires can offer a way for the donor to respond and, in so doing, open the door to the beginning of a relationship.

Whether on a card or a questionnaire, some donors also give clues to their personality and motivations by comments penned—sometimes almost illegibly—in the margins.

Reading between the lines to identify opportunities takes practice. But it can prevent the loss of a substantial gift—which may well go to another organization with more astute development staff members.

How would you answer?

Donors to a major university wrote the following comments on questionnaires they were sent at the end of a quarterly mailing program. What opportunities for further contact does each present?

“Ought to make decisions on worthy causes, but main concern is grandchildren.”

While this may sound like a “Sorry, not interested,” reply, this person may be surprised to learn that grandchildren need not be slighted by charitable giving. If little else is known about the writer, a phone call would be appropriate to say thanks for the comment and suggest that there may be ways to give that actually enhance benefits to heirs.

After you learn more about the person, you may decide to suggest a lead trust, a term-of-years trust that pays income to the grandchildren to help with college expenses, or other planned gift arrangement. Or re-

mind the person about a residual bequest that would be completed only after other heirs are provided for.

“Any change ... will be determined by our financial situation, considering we are living on a retirement income.”

Another “Don’t call me, I’ll call you” answer? Not really. These people have provided a key piece of information—that they are retired. That tells you they are in a key age group for planned giving. They also may be interested in giving-for-income plans to supplement their pension. A gift annuity may be especially attractive.

“I have not looked at the information which you sent. When the golf season slows down, I expect to get busy on my will preparation.”

It’s rare for respondents to take the time to tell you they haven’t read your material, let alone to imply that they have saved it and plan to read it later. This comment signals deeper interest. Mark the donor for future contact when more help may be welcome. It may be impressive that you remembered the comment. Also note the interest in golf in your records. This may be an indication that the donor is still in the prime of life and may be interested in a plan that provides additional income in future years.

“As an attorney, I prepare wills.”

Add this person to your list of professionals whom you keep informed of planned gift marketing activities. A follow-up call may be appropriate to introduce yourself and establish a relationship on which to draw in the future. This person may serve as a volunteer for you in their community and help with questions donors may have.

“I plan to update my will in the near future and will retain you as beneficiary.”

Why can’t they all be like this? A thank-you phone call is appropriate. The donor may be interested in memorial opportunities for the bequest, or in more



Phillip Adcock is senior vice president with Robert F. Sharpe and Company. Previously he served as national director of major gifts and planned giving for the American Cancer Society National Center.

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advised to move quickly to take advantage of these amounts in case, as many predict, the law may be changed again in coming years.

Those who are working with the wealthy in 2002 may be surprised to hear from them that they may have difficulty funding large gifts because they have taken an advisor's advice and have just transferred \$650,000 to loved ones. But the new exemption amounts need not be competition for major gifts. They can be an opportunity to show committed donors how to give even more to loved ones under the new tax laws by combining their charitable gifts with the desire to benefit other heirs. See "Planning Matters" of the July 2001 issue of *Give & Take* (www.rfsc.com/gt) for ways to multiply the new exemption amounts using charitable remainder trusts, lead trusts, and gift annuities.

It is not unusual for wealthy persons to decide how much they want their families and friends to inherit, and then leave the balance to charity. In many cases, the balance left is net of any tax due on the amounts left to non-charitable heirs. Encourage such persons to

continue to make their plans in this way, as the planned elimination of the estate tax in 2010 will have no impact on what their heirs receive. The net result will be more for charitable use if no taxes are due on the bequests to other heirs.

A time for action

This fall will require careful balancing of priorities, especially for those development executives with multiple responsibilities. While encouraging donors to give all they can this fall when tax rates (and savings from deductions) are higher than next year, it is also important to begin to plant seeds that will bear fruit in the future when the results of estate plan changes become apparent in years to come.

Editor's note: See the enclosed samples of publications designed to encourage gifts this fall for examples of how to blend messages encouraging timely gifts along with attention to changes brought about in recent tax legislation. G&T

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The new exemption amounts need not be competition for major gifts.
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Donor Messages...Continued from page 3

information about the types of bequests and their advantages and disadvantages.

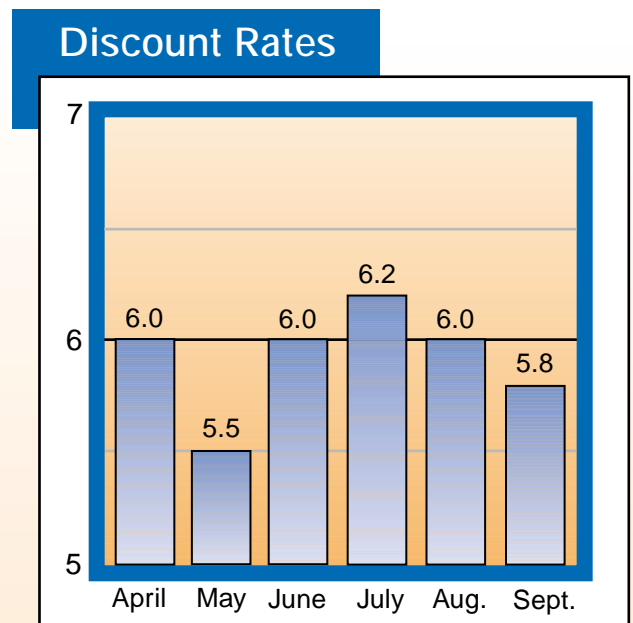
"I will be the sole recipient of my mother's modest estate and I will not be in a position to rearrange my will or make charitable contributions until my mother dies; she is 98."

You may decide to handle this one with a letter. The writer has revealed much more than is necessary, suggesting a willingness to communicate further. If you learn of the mother's death, a carefully written letter some six months later can remind the writer of the intentions he or she revealed in the earlier communication.

Response devices are important to building ongoing relationships with donor prospects.

When a person takes time to say thanks or even to explain why they can't or won't give now, this need not be the end of the story. It could be an invitation to begin a relationship that could be mutually beneficial to the donor and the charitable interest.

Editor's note: This material is based on Mr. Adcock's presentations in the popular Sharpe seminar "An Introduction to Planned Giving." See page 7 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.

Footnotes



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

Encourage year-end gifts for successful 2001

Many nonprofit organizations receive the bulk of their funding during the final months of the year. Traditionally the end of the year is a time when many people review their long-range financial plans and decide what charitable gifts they wish to make. The 2001 Tax Act and the current economic climate may mean your donors will be examining their plans more closely than ever this year.

Make sure your donors understand the tax and other financial benefits available to them through charitable giving this year. Robert F. Sharpe and Company's year-end giving brochures are professionally designed to help your donors maximize their gifts before the end of the year.

This year Sharpe offers five year-end giving brochures (see representative samples enclosed with this issue of *Give & Take*).

"Giving at Year-End." This title highlights the importance of timing of gifts and advantages of various assets that can be used to fund them, such as cash, appreciated property, and retirement plan assets. Available in three cover designs, the brochure emphasizes how recent reductions in income tax rates mean that deductions for donors who complete gifts this year may never save more. Giving through long-range financial planning is also introduced, with special attention focused on giving in light of the scheduled phase out of estate taxes.

"Giving Thanks at Year-End." This brochure, as the name suggests, emphasizes the theme of thankfulness and sharing blessings with others. It includes helpful reminders about the best properties to give and the importance of timing in light of recent tax legislation.

"Giving Before December 31." This publication, designed for use in the final weeks of the year, focuses on the importance of timing charitable gifts for maximum benefit. References to long-range planning are also included as a way to fulfill future charitable goals for those who may be re-examining their estate plans in light of 2001 tax law changes.

You may view full-color covers and complete text of all year-end giving brochures at www.rfSCO.com/yearend. To place your order,

call 1-800-238-3253 or fax to (901) 761-4268.

Shed light on tax law changes

The old saying "knowledge is power" applies to most communications efforts. That is a principal reason that Sharpe writers created the helpful booklet **"Charitable Giving After the 2001 Tax Act."**

Donors, staff, volunteers, and others have read a variety of press reports regarding charitable giving and the new tax law. Some are positive—some are negative.

When donors are educated about the positive changes brought about by the new tax law, they will be better prepared to make informed decisions about their charitable giving plans. "Charitable Giving After the 2001 Tax Act"

explains the major changes in the tax law and how they may affect donors. Special emphasis is placed on reasons that planned gifts will be more attractive than ever as a result of planned changes in gift and estate tax laws.

Readers will learn about income tax rate reductions,

estate tax phase out and elimination, and subtle changes in the gift tax. Helpful examples lead the reader step-by-step through a variety of charitable gift scenarios in light of tax changes.

You may want to consider sharing this booklet with your higher-level donors or those who

have expressed an interest in making a planned or major gift. The booklet may be used during personal visits with donors, as the centerpiece of a special mailing, in gift acknowledgments introduced by a P.S. in a thank you letter, and as handouts at donor events, volunteer training events, reunions, or seminars.

For more information or to place your order, see www.rfSCO.com/taxlaw, or call 1-800-238-3253, or fax your order to (901) 761-4268.



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

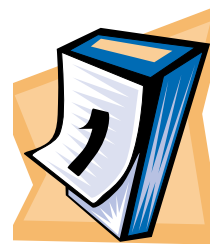
linking their knowledge and over 40 years of combined experience, Sharpe and Tidd lead participants who possess a basic understanding of gift planning tools through a comprehensive training experience designed to help them best utilize their skills in today's environment. Registration is limited to allow 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. **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
Chicago
October 29-31

Orlando
December 10-12

Major Gift Planning I
Washington, D.C.
November 8-9

Major Gift Planning II
Chicago
September 6-7

Washington, D.C.
December 10-11

Planning Matters

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cerned about the future performance of their investments and limited cash flow they produce. They also do not wish to generate taxes on capital gain, which would further reduce available cash flow. This can be expected to lead to renewed growth in deferred gifts other than bequests in coming years.

The factors outlined above, and others, bode well for nonprofits outside the field of higher education as the same trend should lead to increases in planned gifts for these organizations and institutions as well. **G&T**

Tax Law Seminar Coming to New York

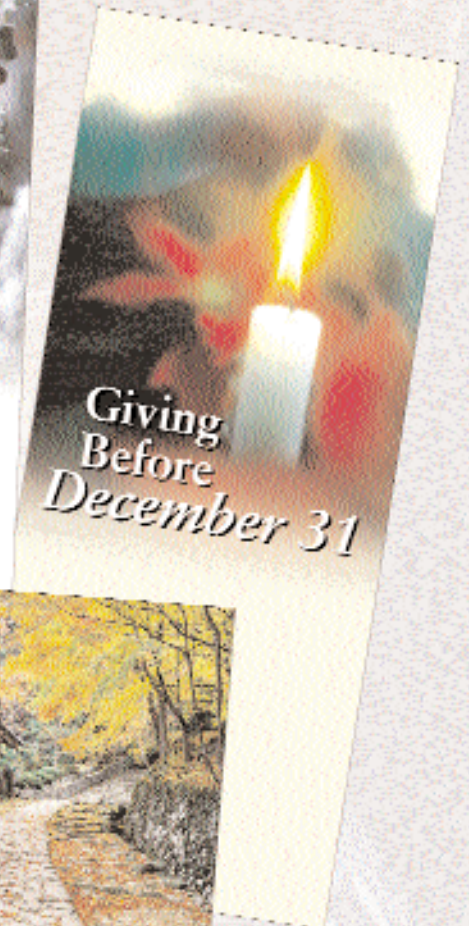
Due to the overwhelming positive response to earlier sessions, Sharpe has announced an additional date for the seminar "Charitable Giving After the 2001 Tax Act" in New York on October 8. Join Robert F. Sharpe, Jr., and Jonathan Tidd, Esq., for a special one-day training experience that focuses on the new tax law and how it relates to charitable fund development. Previous sessions have sold out, so make your reservations now. Call 1-800-238-3253 ext. 5360 or register online at www.rfSCO.com/taxlaw. **G&T**

2001 Year-End Giving Brochures

This year-end, during a period of rapid change, it is extremely important that your donors know about the best ways to make their charitable gifts.

Sharpe's 2001 year-end giving brochures are designed to quickly impart the information your donors will need, including why the 2001 tax law may make their gifts more attractive this year.

Make sure that your donors have the information they need to maximize their giving before the end of the year.



View brochures, including full text, at www.rfSCO.com/yearend.



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