

The State of Estates in America

by Barlow T. Mann

In recent years, studies published in the U.S. and elsewhere have revealed trends in the profiles of those who intend to include charitable contributions as part of their estate plans. A national survey sponsored by the National Committee on Planned Giving in 2000¹ revealed, among other things, that 8% of the population claims to have included charitable bequest provisions in their estate plans. This represents a 60% increase over the results of the NCPG's earlier study in 1992. Other surveys have indicated that upwards of 50% of affluent Americans intend to include charitable provisions in their estate plans.²

These and other surveys contain helpful information about the charitable *intentions* of Americans as they relate to their estate plans. However, as intentions do not always become reality, it can also be useful to examine the fulfilled actions of a portion of America's decedent population over a period of years.

One source of such information is the Internal Revenue Service. The most comprehensive published figures available are included periodically in the IRS's *Statistics of Income Bulletin*. Recent reports feature in-depth analyses of the estate tax returns of individuals who died between 1995 and 2000. The data, projections, and estimates from the Internal Revenue Service can provide a wealth of information about planned giving donors and prospects (see www.irs.gov).

Crunching the numbers

Among those who filed estate tax returns in 1998, the average female decedent passed away at 81.4 years, almost five years later than the male decedent's 76.6 years. Both lived slightly longer than the general population. Those who had entered into planned gifts lived even longer.

The composition of estates reveals that stocks and bonds made up the bulk of the assets in the estates of both male and female decedents. Cash amounted to only about 11% of combined assets.

The marital deduction and charitable deduction are the two most popular estate tax deductions. For 1998, the charitable deduction was claimed in 16.9% of the federal estate tax returns filed, which falls within the normal 15-20% observed in other years. As 80% or more of wealthy persons do not yet make gifts that result in charitable deductions from estate taxes, there may be tremendous opportunities for growth in gifts via estates. Meanwhile, NCPG figures indicate that there has been a dramatic increase in planned giving donors among the general population of ordinary Americans.

Gross contributions claimed on estate tax returns exceeded \$13.6 billion in 1998. The IRS study reveals that charitable bequests in estates on average amounted to 28.7% of the estate net worth.

Factors affecting charitable gifts

Gender. Without a doubt, gender plays a role in giving patterns. Women are significantly more likely to include charitable provisions in their estates than are men. Overall, 13.4% of male decedents left \$7.2 billion and 21.0% of female decedents left charitable bequests of \$7.7 billion. This difference may be explained by the fact that women tend to live longer than men, and as a result wives often outlive their husbands. The first spouse to die in a married couple would likely take advantage of the unlimited marital deduction by leaving all assets to the surviving spouse. In these cases, the second spouse to die, in most cases women, would naturally attend to the ultimate charitable disposition of the couple's accumulated assets.

While women were more likely to leave bequest gifts, note that men actually contributed more per capita.

Marital status. Single (defined as never married) females and males were the most likely to include charitable bequests in their wills. Almost half of all single females studied, and roughly one-third of all single

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¹ "Planned Giving in the United States 2000: A Survey of Donors"
² U.S. Trust Survey of Affluent Americans



Capital gains...
or pains?

Planning Matters

Many planned and major gifts are funded with highly appreciated assets. In the typical arrangement, the donor's income tax deduction is based on the full fair market value of the contributed asset (including unrealized appreciation), and the donor bypasses any capital gains tax liability at the time the property is donated.

The combination of income and capital gains tax savings helps explain the popularity of these gifts. But despite how common gifts of appreciated assets have become, the exact rules surrounding them can be bewildering. In an attempt to clear up the confusion, below we have addressed some of the most frequently asked questions about how the capital gains tax affects gift planning.

• **What types of property can be donated on a favorable basis?** Generally, gifts of both real and intangible personal property that are capital assets and have been held longer than a year qualify. Popular examples include real estate, stocks, bonds, and other securities.

• **What about other assets?** While they certainly may be contributed, special rules apply to so-called "ordinary income" assets and tangible personal property. If the sale of the asset would produce a short-term gain or ordinary income for income tax purposes, the contribution will ordinarily be the lesser of the fair market value or the donor's cost. In the case of tangible personal property, more favorable tax treatment is extended to gifts that qualify under the "related-use rule" (see "Planning Matters" in the November 2000 issue of *Give & Take*).

• **What can the donor deduct?** Unlike gifts of cash, which may be deducted up to approximately 50% of the donor's adjusted gross income (AGI) in the year of the gift, gifts of qualifying long-term capital gains properties are subject to a lower annual deduction limit of 30% of AGI. In both instances any unused deduction may be carried over for use in up to five future years.

• **What is the "extra" tax savings by making a gift of appreciated property?** The "extra" savings is the amount of capital gains tax that would have been paid if the asset had been sold. This amount depends upon the

applicable capital gains tax rate and the size of the gain.

• **What is the capital gains tax rate?** The rate depends upon the taxpayer's income level, the type of asset, the length of time the asset was held, and other factors. The 1997 Tax Act created a number of different capital gains rates. The most common maximum capital gain rate of 20% usually applies to gifts of appreciated securities or real estate. However, if real estate has been subject to accelerated rather than regular depreciation, a 25% rate is applied to the portion of the gain that represents the excess of accelerated over regular depreciation. With certain types of collectible tangible personal property such as rare art, stamps, coins, antiques, etc., a maximum capital gains rate of 28% will apply. Special rules can also apply to certain assets held longer than five years.

• **What impact does capital gains tax planning have on planned gifts that provide a donor with payments?** Technically, the amounts donors receive from charitable remainder trusts and gift annuities must be tracked according to the nature of the income that comprises the payments. In the case of CRTs, the taxpayer may report a portion of income as capital gain as it is distributed, under the IRS's "four-tier" payout system (see IRC Section 664(b)). As a result, the trustee of a charitable remainder trust must keep up with the amount and type of gain that was avoided at the time the trust was funded (or generated from subsequent investments) and properly report distributions to the recipient according to the extent to which they include capital gain. With gift annuities, any capital gain present in the property used to fund the gift annuity will generally be recognized over the donor/recipient's life expectancy to the extent it is attributed to the payment stream. If the donor is not the payment recipient, then all of the gain attributable to the payment stream must be recognized by the donor at the time the gift is funded.

• **What if there is very little appreciation in the asset that a donor would like to contribute?** In such an instance, it may be advantageous to make the "50% election" for tax-deduction purposes. The donor may elect to reduce the deduction to the amount of the donor's cost basis and take the deduction against the 50% of AGI limit instead of the 30% limit that would otherwise apply to gifts of appreciated property. This strategy can provide

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Give & Take:

A client service publication published monthly since 1968 by Robert F. Sharpe and Company, 6410 Poplar Avenue, Suite 700, Memphis, TN 38119, (901) 680-5300. Fax (901) 761-4268.

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

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Bequests on the Rise

In this month's "Gift Planner Profile," Give & Take features David Mays, Director of Gift Planning at the University of Wyoming Foundation. A graduate of Wake Forest University and the University of North Carolina law school, Mr. Mays has worked in gift planning for over ten years.

Give & Take: Why did you choose a career in development?

Mays: My father worked in higher education development for over 30 years, so I was brought up in that atmosphere. When I graduated from law school, I knew this was the career path I wanted to take.

In my first job I worked as the interim Director of Planned Giving at the University of Northern Colorado. I then spent over four years at Colorado State University as the Assistant Director of Campaigns and Planned Giving there. I spent two years at the College of William and Mary as the Associate Director of Gift Planning before coming to the University of Wyoming in 1998.

Give & Take: Bequest notifications at Wyoming have more than tripled in both amount and number since you started working there. What is the secret of your success?

Mays: I believe that the increase in bequest notifications from living donors is due in part to consistent and quality communications with the appropriate persons among our constituency about the importance of including the University of Wyoming Foundation in their wills. Response

devices that we include with each mailing on this subject provide opportunities for people who have included us in their estate plans to tell us they have done so.

In addition, our development staff is well versed in this area and comfortable with the subject when visiting with friends and prospects. We also on occasion work closely with a number of allied professionals when they are speaking with interested clients about the importance of charitable estate planning.



David Mays

Give & Take: Can you be more specific about your marketing strategy?

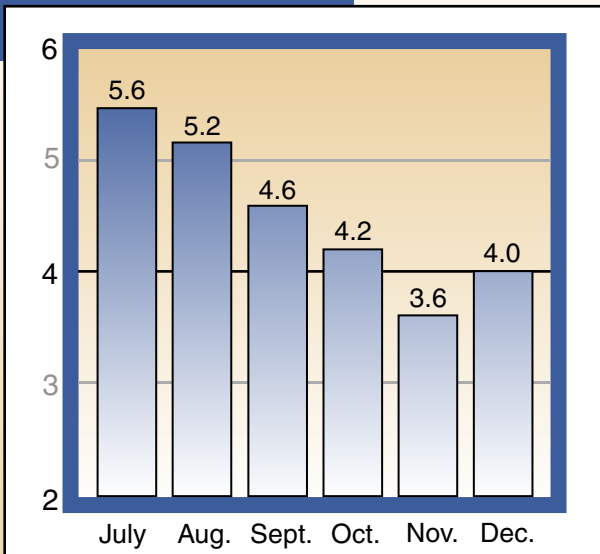
Mays: When I got here, the gift planning office had never mailed any sort of newsletter to our donor pool, so one of the first things I did was to set up a fairly aggressive communications effort. With the assistance of the Sharpe team, we created our *Horizons* newsletter, which we mail several times a year to our alumni and friends age 50 and older, including board members. Along with the newsletter, we send out response cards that allow donors to notify us if they have included us in their estate plans, and we've had really good response with that. I think that's part of the reason for our increase in notifications. The other part is just the fact that we've been consistent in getting the word out about planned gifts. I am convinced that most people have to hear things more than once before it starts to sink in and they actually take action.

We mail out two other newsletters as well. Twice a year we send out a Legacy Society newsletter to all of our friends who have included us in their estate plans. We usually feature three or four donors and show how their gifts have been put to good use. We also send out on a quarterly basis a technical newsletter to our expanding network of allied professionals around the country—attorneys, CPAs, trust officers. While I often work with donors, we also work with their advisors, and this newsletter helps to remind them of the various gift planning tools that are available to them to help them fulfill their clients' wishes.

Give & Take: Are you seeing interest in other types of planned gifts besides bequests?

Mays: Yes, gift annuities and charitable remainder trusts (CRTs) in particular. It helps that we are currently in the midst of our DISTINCTION campaign, the largest fundraising campaign in the history of the university. These types of gifts count not only in the campaign but may also be eligible to receive a corresponding state match to

Discount Rates



Trend in applicable federal mid-term rates (AFMR's), which are used in calculating tax benefits of planned gifts.

The State of Estates...Continued from page 1



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

males, included charitable provisions in their estate plans, compared with roughly 25% of widowed men and women and fewer than 10% of married decedents. Single decedents also contributed a larger percentage of their net worth than married or widowed contributors. In total numbers, widows and widowers tend to constitute the largest source of charitable bequests. Again, the impact of the unlimited marital deduction and the need for a surviving spouse to have access to the entire marital estate for the remainder of life would largely explain the fact that married decedents were far less likely than their widowed and single counterparts to include a charitable bequest in their plans.

Age. In 1995, those persons over the age of 80 at the time of death represented almost three-quarters of all charitable contributors from estates. Over 90% of bequest money came from those who died after the age of 70. Interestingly, while the largest percentage of net worth was given by decedents who were between the ages of 50 and 60 at the time of death, only 440 estate tax returns for persons under 60 contained charitable provisions. Again, this reflects the fact that most younger decedents fall into the category of married men, who are the least likely to leave a bequest to charity through their will or other plans.

Charitable Bequests as a Percentage of Net Worth, by Age, 1995 Charitable Donors³

Age	Net Worth Number	Net Worth Amount	Bequest Amount	Percent of Net Worth
All	14,283	36,113,242	10,117,929	28.0
Under 50	169	255,341	39,133	15.3
50-59	271	986,624	486,859	49.7
60-69	872	3,216,908	537,817	16.7
70-79	2,521	6,632,739	1,239,266	18.7
80-90	5,759	14,269,394	4,351,645	30.5
90+	4,693	10,752,235	3,460,209	32.2

Looking ahead

Published IRS data should provide encouragement for all persons involved in the gift planning process. They provide solid evidence that the growing transfer of wealth is becoming a source of increased charitable giving and can be expected to grow in the future.

Evidence of the increasing size of estates is shown by the rise in the number of federal estate tax returns filed between 1987 and 2000 (see chart below).

Actual Estate Tax Returns, 1987-2000⁴

Filing Year	Number of Returns	Filing Year	Number of Returns
1987	45,113	1994	68,595
1988	43,683	1995	69,755
1989	45,695	1996	79,321
1990	50,367	1997	90,006
1991	53,576	1998	97,856
1992	59,176	1999	103,979
1993	60,207	2000	108,322

As part of the 2001 Tax Act, the filing level increases to \$1 million in 2002, \$1.5 million in 2004, \$2 million in 2006, \$3.5 million in 2009, the tax is repealed in 2010, and, unless Congress acts to make the estate tax cuts permanent, is scheduled to return to \$1 million in 2011. While the actual impact of the estate tax cuts remains to be seen, one could reasonably assume that many, if not most, of those persons that fit the charitable bequest profile (older, single, childless, widowed, etc.) will continue to include charities in their estate plans. Such was the case after the 1981 tax act eventually eliminated estate taxes for most decedents through the introduction of the unlimited marital deduction and the original \$600,000 exemption equivalent. See below for the IRS's projected estate tax returns for 2001-2008.

Projected Estate Tax Returns, 2001-2008⁵

Filing Year	Projected Number of Returns	Filing Year	Projected Number of Returns
2001	131,000	2005	90,000
2002	107,000	2006	65,000
2003	114,000	2007	69,000
2004	85,000	2008	72,000

Continued on page 5

³ Eller, Martha Britton. "Charitable Bequests: Evidence from Federal Estate Tax Returns." *Statistics of Income Bulletin*. Spring 2001: 174-190.

⁴ Johnson, Barry W. and Jacob M. Mikow. "Federal Estate Tax Returns: 1998-2000." *Statistics of Income Bulletin*. Spring 2002: 133-186.

⁵ Framinan, Javier. "Projections of Returns to Be Filed in Calendar Years 2001-2008." *Statistics of Income Bulletin*. Winter 2001-2002: 174-177.

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Marketing efforts pay off

While surveys have indicated that up to 50% of affluent persons intend to include charities in their estates, the NCPG study shows that only 8% of Americans overall have actually included charitable dispositions in their estates. As noted earlier, IRS statistics indicate that less than 20% of the affluent actually take this step. It therefore appears that there is considerable room and promise for donor education and motivational activities on the topic of charitable bequests and other testamentary gifts to help bring stated intentions in line with reality.

Given these statistics, one might reasonably assume that an organization could enjoy signifi-

cant growth in this source of gift income simply by encouraging those who have charitable intentions to follow through! One effective way to turn prospective donors into committed supporters is to send them appropriate and timely marketing materials (see page 3). The 2000 NCPG study supports this idea as it indicates that the number one way donors learn about making charitable bequests is through charities' marketing efforts.

Ongoing and effective communications with your constituency may well be the key to helping your donors turn their charitable intentions into a reality. It is both the duty and privilege of gift planners to help donors leave a lasting legacy for the future. [G&T](#)

Bequests...Continued from page 3

an endowment if the gift is designated for endowment purposes and is at least \$50,000. We have found that, in spite of recent market fluctuations, several donors have chosen these instruments to make their campaign commitment.

Most of the realized bequests we have received, as well as the CRTs and gift annuities that have been established, are going toward endowment support, be it for scholarships, faculty, or programs. In some instances, the gifts are large enough, with the corresponding state match, to establish endowed chair positions in various academic disciplines on campus.

Give & Take: Can you tell us more about your DISTINCTION campaign?

Mays: July 2000 was our official kick-off, and at that time our goal was to raise \$100 million over a five-year period. In the first 24+ months, we were already over \$78 million, so this past September we decided to raise our goal to \$125 million. The campaign's goals are centered on four major areas: endowed faculty chairs and professorships, student scholarship and internship endowment, enhancement of technology and facilities on campus, and expansion of outreach programs to extend the services of our university to the rural areas of the state.

Give & Take: What special opportunities or challenges does working at a state-funded university present?

Mays: Obviously, the \$30 million endowment-matching fund that the state legislature established has helped us raise money in our campaign. To receive a match, a gift has to be at least \$50,000, and I believe a lot of our donors who were thinking of making a smaller gift are inspired by the match to increase their gift to the \$50,000 level. Another bonus is that even donors who establish life income gifts who may not have been able to see their gift in

action in their lifetimes can now see the matching funds put to good use immediately.

On the other hand, sometimes people think that a state university receives all its operating expenses from the state and shouldn't need to raise money. Everybody that's in this business knows that isn't true. We receive 40% of our operating expenses from the state of Wyoming, but the rest comes from tuition, research moneys that are drawn in, and private fundraising. While we're not bringing in the bulk of the university's funds, we are providing that extra edge of excellence to create chairs, to offer more student scholarships, or to enhance certain academic programs—things that state funds normally will not cover.

One benefit of being at this particular state university is that we are the only four-year institution in Wyoming, so the university is embraced by the entire state. That's an advantage that we enjoy that other state universities may not.

Give & Take: What is your guess about what 2003 might hold for gift planners?

Mays: Everyone hopes the market will rebound. We have had friends tell us they plan to make a major gift, but want to wait a little while until the market improves somewhat so their gift can have a larger impact. This is true not only with outright gifts, but also with regard to the establishment of charitable remainder trusts and charitable gift annuities. All we can do is keep these concepts and opportunities visible to our friends and work with them to secure their financial and charitable goals when appropriate.

That being said, we will continue to stress the importance of remembering the university in people's wills or living trusts. This has, and will continue to be, the most important, and ultimately beneficial, aspect of our gift planning program.

So, for 2003, it will be full steam ahead, as usual. [G&T](#)

Footnotes



BOOKLET OF THE MONTH

“Your Guide to Effective Giving in 2003”

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

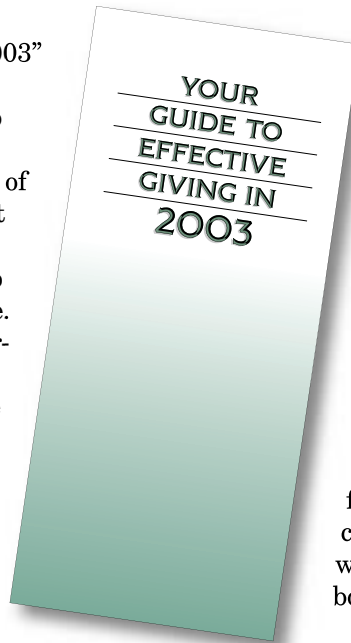
As the time for making resolutions for the new year approaches, many are taking time to rethink their financial, charitable, and estate plans. What better time to help your donors discover the benefits of thoughtful gift and estate planning?

Let Sharpe's booklet “Your Guide to Effective Giving in 2003” help you guide donors through the giving process. Designed to help those with philanthropic interests maximize the impact of their gifts, this 16-page booklet reveals that how much donors give should be closely linked to what, when, and how they give.

Newly updated in light of current economic conditions, this booklet highlights gifts that are completed today, along with those that provide income for life, gifts of life insurance, retirement plans, and other gifts that may be particularly appealing in today's climate. Also included are a number of helpful planning tips and a checklist summarizing tax and other benefits of more effective charitable giving in 2003.

“Your Guide” is written in an easy-to-read, non-technical style that your donors will appreciate. It may be personalized with your organization's information on the front and/or back cover.

As is the case with other Sharpe booklets, “Your Guide” is designed to be used in support of personal visits with donors, as follow-up pieces to marketing initiatives, or as inserts in gift acknowledgment letters. You may also consider sending this booklet in a special mailing early in the new year to a selected portion of your donor



file along with a letter outlining particular challenges, needs, or giving opportunities in 2003.

Start the new year off right—for your donors and your organization. For more information or to place an order, please complete and fax the enclosed order form, visit www.sharpenet.com/ donor, or call 1-800-238-3253 to speak with a customer service representative.

Stretch budget dollars

In times of budget cuts, every dollar counts. In most cases, salaries comprise the largest portion of a gift planning budget. Now may be the time to invest in ways that can enhance staff productivity—by sending them to a Sharpe seminar of your choice.

Sharpe offers a range of seminars appropriate for various levels of experience. Consider sending those just joining your team to “An Introduction to Planned Giving” and/or “Managing Planned Giving Relationships.” These information-packed seminars focus on the fundamentals of gift planning, from initial contact with a potential donor to the best ways to maximize the impact of gifts for both your organization and the donor.

More experienced colleagues may benefit from “Major Gift Planning I,” a two-day seminar led by Robert F. Sharpe, Jr., and Jon Tidd, Esq. These seasoned professionals lead discussions of the complexities of gift planning vehicles, including tax considerations, relationships with professional advisors, and the role of gift planning among other fundraising programs. Designed as a sequel, “Major Gift Planning II” provides ideas helpful to those responsible for the complex role of completing major gifts.

See page 7 for more details or call 1-800-238-3253 or visit www.sharpenet.com/training to reserve your place. G&T

Planning Matters...Continued from page 2

additional savings where the basis is high and the additional tax savings from the larger deduction is more valuable than the smaller deduction that would otherwise be taken over a longer period of time.

Even simple gifts of appreciated property can become quite involved depending upon the circumstances. In situations out of the ordinary, gift planners should work closely with the donor and/or the donor's advisor to help ensure that tax savings are accurately described and optimized. It is also vitally important that the benefits of gifts of appreciated property be accurately described in materials designed to inform donors and their advisors. G&T

Training Update

An Introduction to Planned Giving

For a comprehensive, in-depth training experience, consider attending Sharpe's 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 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 planned giving 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

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," this one and one-half day session follows that seminar in selected cities. Special tuition rates are available for concurrent attendance or for prior attendees of "An Introduction to Planned Giving." **G&T**

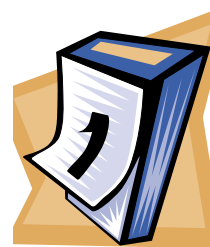
Multiple registration discounts are available. For more information or to register, please contact the Sharpe company.

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E-mail: seminars@rfsco.com



Seminar Training Dates

An Introduction to Planned Giving

Seattle
January 27-28
Chicago
February 10-11
Boston
March 10-11

Managing Planned Giving Relationships

Seattle
January 29-30
Chicago
February 12-13
Boston
March 12-13

Major Gift Planning I

San Francisco
February 20-21
Washington, D.C.
March 3-4
Chicago/Oak Brook
April 23-24

Major Gift Planning II

Memphis
January 16-17
Boston
June 23-24



Season's Greetings

from Robert F. Sharpe & Company

*May peace and joy be yours
throughout the new year.*