

## IRS Figures Reveal Planned Giving Growth

The most recent figures available from the Internal Revenue Service feature good news for gift planners: Despite a weakened economy, planned giving activity has continued to reach record levels in recent years. IRS analysis of estate tax returns filed for 2001 reveals that charitable deductions totaling approximately \$16.15 billion were claimed on 18,711 estate tax returns, an all-time record for both dollar amount and number of estates with charitable dispositions. This occurred in spite of the fact that fewer estates were required to file returns after the filing threshold increased from \$600,000 to \$675,000 between 1997 and 2001. The number of estate tax returns filed in 2002 can be expected to decrease further as a result of the estate tax threshold increase to \$1 million in 2002.



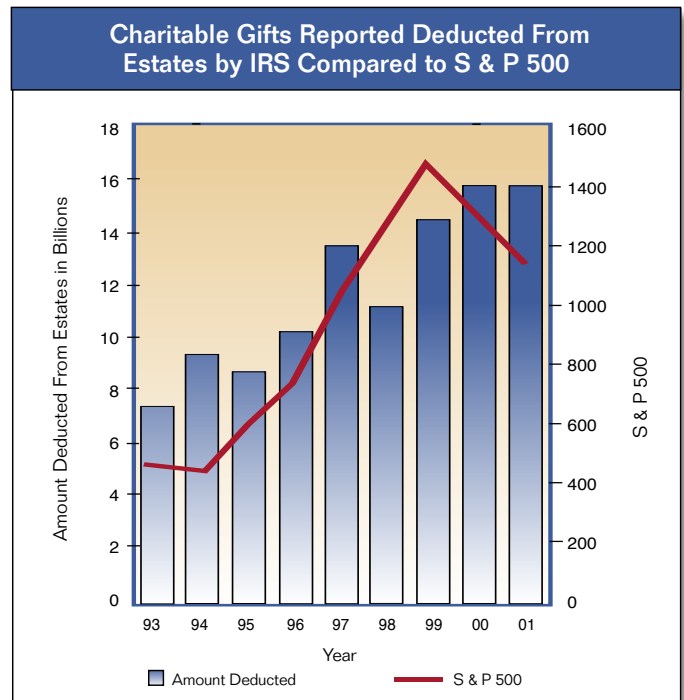
Join us for Major Gift Planning in New York August 14-15.

Summary of Estate Tax Return Data			
Year	Total Returns	Charitable Provisions	Amount (in billions)
1998	97,856	16,982	\$10.86
1999	103,979	17,554	\$14.58
2000	108,322	18,011	\$16.09
2001	108,112	18,711	\$16.15

As illustrated in the table above, the amount deducted for charitable distributions from the estates of the relatively wealthy grew by nearly 50% over the three-year period from 1998 to 2001, despite the combination of filing threshold increases and economic fluctuations. During the same period, according to *Giving USA* reports, gifts from living individuals increased by 31%.

Despite contrary speculation in the press, it is interesting to note that charitable distributions from the estates of the wealthy have continued to achieve record levels even after the stock market peaked and began to

decline in the late 1990s. See the chart below comparing charitable bequests reported on federal estate tax returns to the Standard and Poor's stock market index.



This seeming anomaly may be partially explained by the nature of assets owned by decedents for these years. Most of those leaving charitable bequests die in their later years (IRS reports indicate more die in

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- The importance of establishing policies to manage your endowment p. 3



A refresher course on trusts

## Planning Matters

When a donor indicates an interest in establishing a trust to benefit your organization, what is the next step? Because “trust” is commonly used as a catchall for planned gifts, development officers, financial advisors, and donors can come to the process with different expectations, resulting in confusion and frustration for everyone involved.

Even experienced fundraisers can benefit from a refresher course on the basics. Read on to learn more about trusts and the role they play in charitable giving.

### *Trusts: the basics*

A trust operates as a three-party arrangement whereby one party (typically known as the trustor or settlor) transfers property to a second party (the trustee or fiduciary) to manage in accordance with the trust’s instructions for the benefit of one or more third parties (the beneficiary(ies) and remainder).

Trusts may be established during one’s lifetime (inter vivos) or upon one’s death (testamentary). While some trusts may be revoked or changed at the trustor’s request (revocable), others are structured so that the major provisions or functions of the trust may not be changed (irrevocable). Trusts may operate for non-charitable purposes, for charitable purposes, or both (split-interest trusts). Of the split-interest trusts, charitable remainder trusts, charitable lead trusts, and pooled income funds are the three most common.

By far the most popular form of charitable split-interest trust, **charitable remainder trusts** are irrevocable trusts that typically provide payments for one or more non-charitable beneficiaries for life, for a term of up to 20 years, or for a permissible combination of lifetime and a term of years, before a charitable remainder receives the trust assets. The trustee may be an individual, bank, trust company, or charity. Charitable remainder trusts may be structured to provide either fixed (annuity trust) or variable (unitrust) payments to the current beneficiary. The minimum payment rate is 5% with a maximum of 50%. Under IRS

guidelines, the charitable deduction is usually in the 20%-50% range, but must be at least 10% for a charitable remainder trust to qualify for favorable tax treatment. The trust itself is considered to be a charitable entity for tax purposes, so no income received by the trust is taxable, allowing for tax-free buildup of the trust to the extent earnings are not required to be paid to beneficiaries.

**Charitable lead trusts** are the second most popular type of charitable trust. Unlike charitable remainder trusts, lead trusts make a charity the beneficiary of payments and non-charitable entities the remainder beneficiaries. When the trust terminates, the assets are returned to the donor (a grantor lead trust) or others designated by the donor (a non-grantor lead trust). The payments to charity may be fixed (annuity-trust type) or variable (unitrust type). The lead trust itself is not tax exempt, and as a result any income or capital gains not paid to charity in a given year may be subject to taxation. Lead trusts have sometimes been used as “temporary family foundations” that provide payments to charity for a period of time before assets are returned to the donor or designated heirs at an agreed upon future date.

A **pooled income fund** is a trust established and maintained by a public charity that distributes income to non-charitable beneficiaries for the remainder of their lifetimes. The income beneficiaries receive a pro rata share of the trust earnings based upon their respective shares in the fund. All distributions are taxed as ordinary income.

### *Nuts and bolts*

All of these split-interest trusts are subject to private foundation prohibitions provided in the Internal Revenue Service guidelines. See IRS sections 4947, 4945, 4944, 4943, 4941, etc., for more information. Various trusts are required to file annual tax returns and supply information to beneficiaries for use in preparing their taxes.

As noted in the article on page one, based upon the most recent figures available for 2000, a total of 113,075 charitable split-interest trust returns were filed that year. These trusts held approximately \$94 billion in assets. Charitable remainder unitrusts accounted for 74.5% of the returns, followed by annuity trusts at 20%, lead trusts at 4%, and pooled income funds at 1.4%.

## Give & Take:

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Editor:  
Elaine Gumbert

Design:  
Amy Criswell

## Expecting the Best

*Last August, the Reverend Sara Batson of Christ Episcopal Church in Media, Pennsylvania, received an exciting phone call: An attorney informed her that one of her parishioners had just bequeathed 75% of a \$1.8 million estate to her church.*

*As Rector of what she describes as a modest parish, Rev. Batson was astonished, but not unprepared for a gift of this magnitude. At her instigation, her church had just devoted almost two years' worth of deliberations to the implementation of policies to manage the church's then much smaller endowment. In June of 2002 the work was complete, and the parishioners were informed of the new policies. One month later the donor met with her attorney to formalize and finalize the terms of her bequest to Christ Church.*

*While Rev. Batson does not know whether or not this gift is a direct result of the church's new policies, she and other members of her church feel certain that they made the right decision to develop a planned giving program.*

### **Give & Take: What led you to believe that your church needed to have endowment management policies in place?**

**Rev. Sara Batson:** The church was fortunate in that it enjoyed an endowment of \$250,000 that had resulted from the sale of real estate owned by the church. We are a program-size parish of about 500 members whom no one would consider to be affluent, so when I said that we needed some rules, policies, and spending guidelines regarding the endowment, there was some debate: Did we need to bother? After all, our \$250,000 endowment could hardly be called large. Did it warrant spending time and money to come up with these policies when we only had \$250,000 to worry about and no other gifts on the horizon?

I had learned through past work experiences that having endowment management policies in place can stave off future problems. I felt that if we established policies before any issues arose, people would gain confidence that their gifts would be put to good use and managed according to set policies and procedures. For example, if donors contemplate a gift of \$1,000, they will know ahead of time exactly how we would handle their gift and would naturally be more inclined to make that gift.

And a lot of \$1,000 gifts add up to a healthy endowment.

What led us to develop the policies was not an anticipation of any large gift, but it happened that two months after we had finished our policies and presented an educational program to our parish I got a phone call from a lawyer who told me that one of our parishioners had bequeathed to us 75% of her \$1.8 million estate.

What makes this a great story is that this woman had given only about \$5 a month to the church, had dressed like a pauper, and was a woman of incredible humility. She was a quiet, gentle spirit who was never boastful—very deeply devoted, caring, loving, and intelligent.

It was a real surprise to most of us that she had possessed this kind of wealth. It was an additional lesson that no one can really say who is capable of making an extraordinary gift—and you never know what may be in someone's heart to motivate him or her to make such a gift.



*Rev. Sara Batson*

### **Give & Take: How did you go about informing your parish about your newly instituted policies?**

**Batson:** In the Episcopal Church, a parish elects 12 people to be on the Vestry. While the Vestry is not required to obtain the parishioners' approval of what they are planning, it makes common sense to share important plans. During our endowment planning process, we included abbreviated summaries of our activities in our church newsletter. Over that time we also held two regularly scheduled meetings to inform the parish of the state of the church, including the status of the planned giving effort.

### **Give & Take: Did you or anyone on your planning committee have planned giving experience, or did you rely on a consultant for planned giving advice?**

**Batson:** Both. Several of the members have experience as financial planners or as attorneys. In addition, the Episcopal Church provided us with templates that we then adapted to our particular needs. Our consultant was on call to help us with the technical side of things.

*Continued on page 7*

## Footnotes



### *Plan now to reap the benefits of the year-end giving season*

Even in the heat of summer, experienced fund-raising professionals are planning for the vitally important year-end giving season. As you plan for your fund development efforts this fall, the following information may be of help.

**1. The majority of gifts arrive in the final months of the year.** That is why many organizations carefully plan the timing and content of their fall solicitations.

**2. The psychology of the year-end holiday season beginning in mid to late November traditionally carries over to charitable giving.** As people consider gifts to friends and family, they tend to be more receptive to appeals from their philanthropic interests as well.

**3. Tax motivations encourage giving before the end of the year.** Gifts must be completed on or before December 31 to be deductible on a donor's 2003 tax return. It is important to remind donors of this fact, especially this year when there have been significant tax law changes.

**4. Donors often have more money at the end of the year.** Professionals, entrepreneurs, business managers, and others receive year-end bonuses, which often comprise a large portion of the discretionary income from which gifts are made. This is especially true of business owners.

**5. Many review their finances at year-end.** Especially in light of this year's tax changes, this is the time of year many look ahead and behind to make certain that goals for the year have been met. Procrastinating donors may need a reminder that this year's gift has not yet been completed.

**6. Donors are creatures of habit.** More emphasis than ever on year-end gifts has developed over the past few years, and many donors may have become habituated to give at this time of the year.

### *Getting the word out*

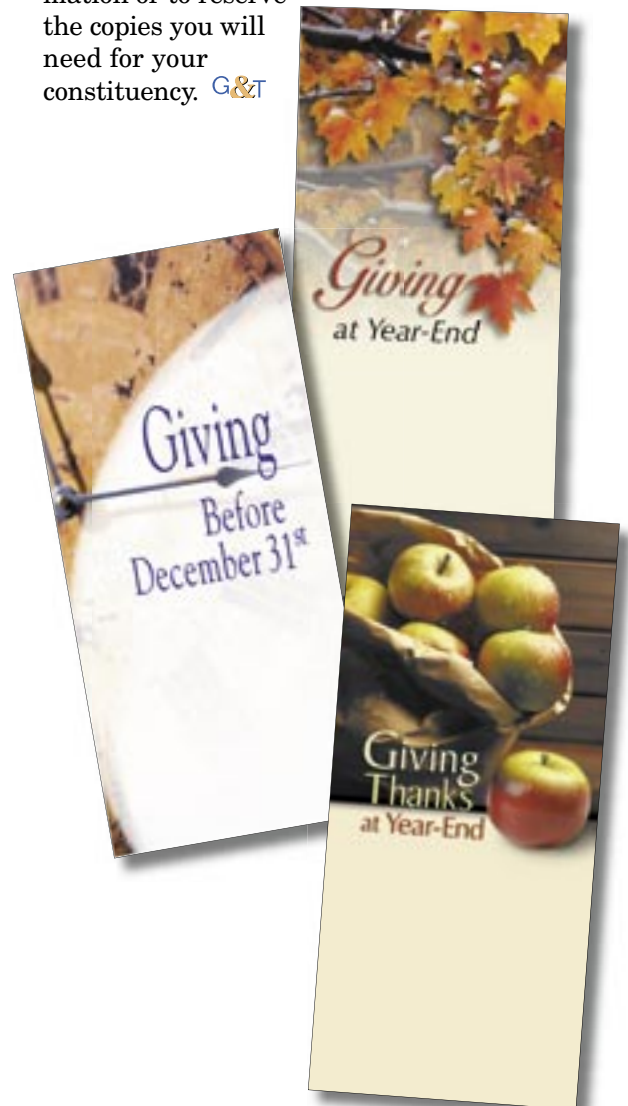
This year Sharpe is offering three brochures designed to help you make the most of the year-end giving season. These attractive, 6-panel brochures offer an economical way to communicate with a broad range of donors this year-end. All may be imprinted with your institution's logo and contact information on the front and/or back cover.

**"Giving at Year-End"** explores the advantages of funding gifts in various ways, including cash, appreciated property, retirement plan assets, and life insurance.

**"Giving Thanks at Year-End"** emphasizes the Thanksgiving spirit and how it can carry over and motivate charitable giving in the fall.

**"Giving Before December 31st"** stresses the tax advantages available to those who make charitable gifts before the end of the year. This brochure may be especially appropriate for mailings late in the year.

All of these brochures have been updated to reflect changes brought about by the 2003 Tax Act and include a "Tax Savings Checklist" to help your donors decide the best way to give. Samples of each have been included with this issue of *Give & Take*. See [www.sharpenet.com/yearend](http://www.sharpenet.com/yearend) or call 1-800-238-3253 for more information or to reserve the copies you will need for your constituency. G&T



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

# 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 other experts combine their experience to guide participants through the basics of charitable gift planning, from 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 planning to specialize in planned giving or have multiple responsibilities that include incorporating gift planning capabilities into other development efforts.

## *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.

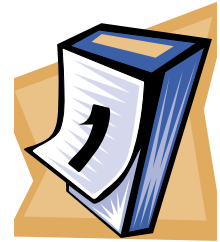
Designed to complement "An Introduction to Planned Giving," this one and one-half day session follows that seminar in selected cities. Special

tuition rates are available for concurrent attendance or for prior attendees of "An Introduction to Planned Giving."

## *Major Gift Planning*

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. [G&T](#)

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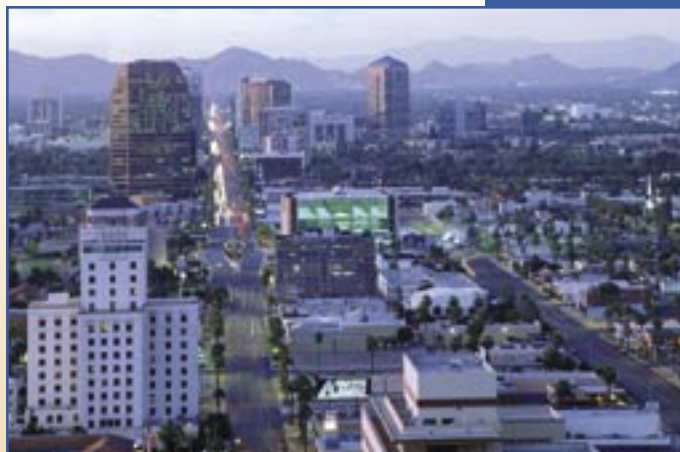


## Seminar Training Dates

**An Introduction to Planned Giving**  
Washington, D.C.  
September 4-5  
Orlando  
November 17-18

**Managing Planned Giving Relationships**  
Orlando  
November 19-20

**Major Gift Planning**  
New York  
August 14-15  
Phoenix  
September 8-9  
St. Petersburg, FL  
December 4-5



*Go back to school with Sharpe this September in Phoenix.*

## Planned Giving Growth...Continued from page 1

their eighties than in any other decade of life), and their investments may have been allocated more conservatively than those held by younger persons. The value of fixed income investments, for example, increased substantially during the time period covered by this report.

Looking back over a longer period of time, the aggregate amount deducted from estates filing returns more than doubled in an eight-year period from \$7.2 billion in 1993 to \$16.1 billion in 2001, and the number of estates taking deductions increased by 68% over the same time period. These figures provide ample evidence that the wealth transfer originally predicted by a number of commentators in recent years is well underway.

### Beyond bequests

Newly released data from the IRS also shows a steady increase in other planned giving activity as evidenced by the growth in the numbers of various types of charitable trusts. Returns filed for calendar year 2000 (the most recent statistics released) reported information on 113,075 charitable trusts with a year-end book value of approximately \$94 billion. Charitable remainder unitrusts were the most common type of split-interest trust, comprising 74.5% of the total. Charitable remainder annuity trusts accounted for another 20%, while charitable lead trusts and pooled income funds accounted for 4% and 1.4% of the totals respectively. See Planning Matters on page 2 for more information on trusts.

Charitable Trusts Reported in the Year 2000		
CRUTs	84,201	74.5%
CRATs	22,669	20.0%
Lead Trusts	4,571	4.1%
Pooled Income Funds	1,634	1.4%
Total	113,075	100%

The report categorized charitable remainder trusts as small (assets totaling less than \$500,000), medium (\$500,000 to under \$3,000,000), or large (\$3,000,000 and over). The vast majority of charitable trusts fell into the small category.

Over three-quarters of the charitable trusts reported asset values totaling less than \$500,000. Fewer than 5,000 of the trusts had asset values \$3 million or greater. Annuity trusts and unitrusts held 11.2% and 75.6% of the \$94 billion of year-end book value assets. Lead trusts held 11.5% of the book value of the assets, and pooled income funds 1.7%.

	CRUT	CRAT	Lead Trust	Pooled Income Fund
Small (up to \$500,000)	56,888	18,725	1,655	1,217
Medium (\$500,000 to under \$3 million)	23,828	3,484	2,288	321
Large (\$3 million and over)	3,485	461	629	97

The number of annuity trusts reported increased by almost 5% from 21,630 in 1999 to 22,669 in 2000. Unitrusts grew in number by 8% from 78,239 in 1999 to 84,201 for calendar year 2000. The ratio of unitrusts to annuity trusts held steady at just under 80% of trusts in the form of variable income unitrusts. There were 4,571 charitable lead trusts and 1,634 pooled income funds for the same year. Figures for year-by-year number changes were not available for lead trusts or pooled income funds.

### Making use of the data

The overall importance of charitable bequests as a percentage of total gift planning activity becomes readily apparent upon examining these figures. Charitable bequests from estates filing returns in a given year typically number two to three times the number of newly reported split-interest gifts. IRS data from 2000, for example, reports 18,711 estates with charitable deductions versus slightly more than 7,000 new split-interest trusts. The revenue from charitable bequests also far exceeds that supplied by split-interest trusts. For example, estate tax deductions for the period from 1994 to 2001 (\$100.1 billion) exceeds the total asset value of all of the split-interest trusts reported by the IRS to be in existence in the year 2000 (\$94 billion). This \$100 billion does not take into account the substantial numbers and amount of bequests from the 95% of decedents whose accumulated assets placed them below the newly increased threshold for filing an estate tax return.

It should be noted, however, that while the charitable deductions claimed on estate tax returns are primarily bequests, those figures also include testamentary split-interest gift arrangements. Gifts completed during lifetime that give rise to individual income tax deductions are reflected in total income tax charitable deductions claimed by

## Planned Giving Growth...Continued from page 6

taxpayers or carried over from prior years by those who itemize their income tax deductions. Thus, it is not possible to statistically account for the substantial increases in gift annuities completed during lifetime now being experienced by many charitable entities, as these funds are not reflected in estate tax deduction figures or in the number and amount of charitable trusts being reported. In fact, because many older persons who fund gift annuities do not itemize their income tax deductions, it is possible that a large number of gift annuities never show up on any public "radar screen." The message here for charitable gift planners is that it is important to emphasize both bequests and life income gifts in order to assure continued growth in both gift categories.

### The big picture

Despite doom-and-gloom predictions by the popular press for charitable giving in general, and relatively anemic figures on giving reported by *Giving USA* and others, planned gifts thus far seem to be largely immune from the current economic downturn, as has been the case during past periods of economic dislocation. Charitable gifts completed as part of long-range financial planning tend to proceed on the timetable of individual donors, are to a large extent influenced by events in their lives, and are thus not as dependent on short-term fluctuations in asset values, interest rates, and other economic influences.

History shows that organizations and institutions that continue to build strong gift planning programs year in and year out can count on bequests, split-interest trusts, and other planned gifts to help them continue to achieve funding success during periods of economic stagnation. [G&T](#)

## Giving USA 2002 Figures Released

The AAFRC Trust for Philanthropy's recently released report estimates that charitable gifts in the United States totaled \$241 billion in 2002. While this represents a new record for giving by Americans, the amount of charitable gifts actually lost ground slightly when adjusted for inflation.

Giving through bequests in 2002 increased to a record \$18.1 billion. This represents an 11% increase from *Giving USA's* original estimate for 2001 of \$16.33 billion and a 2% increase from the upwardly revised 2001 bequest figure of \$17.74 billion.

When considered in light of the IRS figures in the page 1 article, it is clear that planned gifts are continuing to increase even during economically challenging times.

The complete *Giving USA* report is available from the AAFRC Trust for Philanthropy at [www.aafrc.org](http://www.aafrc.org). [G&T](#)

## Expecting the Best...Continued from page 3

**Give & Take:** You mentioned before that you had previous work experience that helped you decide to create endowment management policies. Can you say a bit more about that?

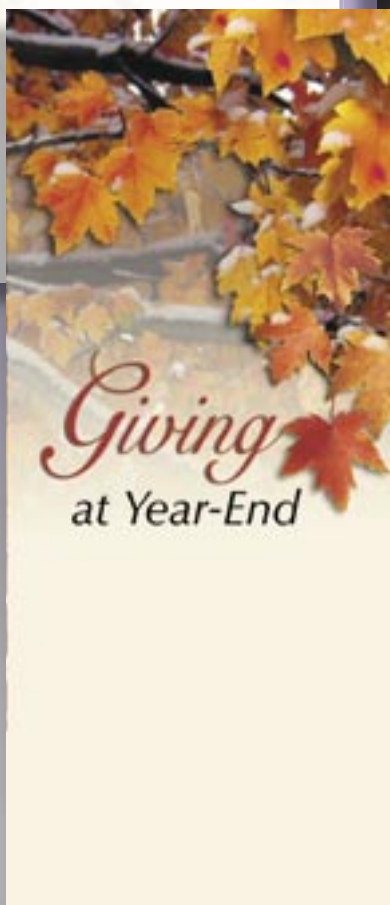
**Batson:** For 35 years I worked as a professional nurse. The last 15 years of that career were spent in management, and I had responsibilities in that position for standardizing clinical policies and procedures for a multi-site hospital system. While I was not directly involved in development or fund-raising work, I have had a lot of experience in consulting—in coming into an organization, seeing the way things are structured, and deciding how to make the organization run successfully. That's why when I saw that we had \$250,000 in endowment with no policies in place regarding how to invest, save, or spend it, I knew we needed a change.

**Give & Take:** Do you have any advice for people who may want to implement endowment management policies at their own organizations or institutions?

**Batson:** I would encourage them not to think that their organization is too small or their endowment too minor to warrant establishing a plan to build and manage it. No matter where you are in terms of planned giving right now, this work is incredibly beneficial when working to build endowment. If you lay the groundwork, the gifts will come.

Never be lulled into thinking that no one would consider giving your organization a large gift. You have to dream big dreams. It is possible that people currently or even formerly associated with your organization care so much that they will remember it in their wills. The better part of wisdom is to say that those people are out there, and we need to do the best we can so that we know how to receive and use their gifts. [G&T](#)

# 2003 Year-End Brochures



Robert F. Sharpe and Company's year-end brochures can help your organization reach its full potential for gifts during the important year-end giving season. Designed with a broad audience in mind, Sharpe's year-end brochures enable you to give your donors the information they need to make informed, thoughtful gifts before the close of the year.

In these times, it is more important than ever to stay in touch with your donors. Let Sharpe's year-end brochures help you remain in your donors' thoughts as they review their plans this fall.

*View brochures, including full text, at [www.sharpenet.com/yearend](http://www.sharpenet.com/yearend)*



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