

Give & Take

News and Ideas for Development Executives of Nonprofit Organizations

Are Donors Back in the 'Market' for Planned Giving?

by Barlow T. Mann

The stock market rebound in recent months has caused many donors to feel more confident in the state of the economy and in their own financial circumstances. But how will this greater sense of security translate to the charitable giving world? The best guess as to what can be expected in the next few months can be gathered by looking at economic recoveries of the past.

What goes around

In the mid 1990s, America experienced a similar economic revival. At the time, the stock market was showing signs of renewed growth as the economy recovered from the recession that clouded the early 1990s. In a landmark moment, the Dow Jones Industrial Average closed above 5,000 for the first time in November 1995, and the Dow was predicted to reach 10,000 by the year 2000.

A growing number of investors felt jubilant about the surge in stock prices. But that optimism was tempered by lingering doubts about whether those levels could be maintained. Many felt that a stock market correction was not merely a possibility on the distant horizon but a certainty for the near future.

Onward and upward?

Despite a number of overvalued stocks, the stock market continued to march upward in the 1990s. Exceeding most experts' predictions, the Dow first closed above the 10,000 mark on March 29, 1999, and reached its highest point of 11,722 on January 14, 2000.

The market upswing of the second half of the 1990s resulted in a positive effect on charitable giving. When the Dow was at its highest, gifts of appreciated securities, in particular, became increasingly popular for a broad group of donors. As a consequence, many development officers took it upon themselves to become more familiar with a variety of gift planning strategies that feature special benefits when funded with appreciated, low-yielding securities.

But things soon changed. After reaching its peak, the Dow experienced a significant correction, eventually falling below 7,300 in October 2002.

After the stock market retreated from its high point, the number of gifts of securities from living donors dropped off dramatically. However, gifts of appreciated securities from estates remained strong and helped to fuel record levels of charitable bequests as reported on federal estate tax returns. Some have speculated that this occurred because older persons may not have been as heavily invested in high growth stocks that suffered the greatest losses during the market correction.

As the economy began its current recovery in 2003, many charitable organizations saw renewed interest from living donors in gifts funded with appreciated securities. Unfortunately, some fund-raising executives, particularly those new to the field, were by that time either "rusty" or completely unfamiliar with both basic and more advanced planning strategies utilizing securities.

Why donors appreciate gifts of securities

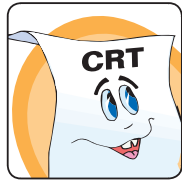
Donors are attracted to gifts of appreciated securities by the combined tax savings of the charitable deduction and avoidance of capital gains tax. The most popular gifts are those funded with publicly held stocks and bonds that have been held over a year (long-term).

Some have speculated that the lower income and capital gains tax rates brought about by recent tax law changes might reduce the attractiveness of gifts of appreciated assets. While it is true that donors will not receive the same level of savings that were available under the previous law, consider the situation of taxpayers planning gifts under the current rules. For them

Inside:

- The impact of recent tax acts on charitable remainder trusts p. 2
- Gift planner profile: Joe Dinnison of Whitworth College p. 4
- Tips for dealing with gifts of securities p. 7

Continued on page 5



Making CRTs
less taxing,
part two

Planning Matters

Recent tax law changes and proposed IRS regulations promise to make charitable remainder trusts more attractive to existing and potential donors.

The 2003 Tax Act accelerated the future income tax rates scheduled in the 2001 Tax Act. The cumulative effect of these cuts is around a 10% reduction in the marginal federal income tax rates that are effective today. (See chart below.)

2001 Rates	2004 Rates	Reduction	Percentage
15%	10%, 15%	Blended	N/A
28%	25%	3%	10.7%
31%	28%	3%	9.7%
36%	33%	3%	8.3%
39.6%	35%	4.6%	11.6%

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Under previous law, if a charitable remainder trust had distributed \$25,000 of ordinary income, an individual in the top bracket would have owed \$9,900 in federal income taxes. The beneficiary would have netted just \$15,100 after taxes. Under the new rates, the tax liability would be reduced to \$8,750 and the beneficiary would net \$16,250 after taxes. The \$1,150 difference represents almost another \$100 per month in disposable income.


Impact on capital gains

The 2003 Tax Act also lowered most capital gains tax from 20% to 15% effective May 6, 2003. The new general maximum capital gains rate applies to assets like stocks, bonds, and most real estate. A 28% maximum capital gains tax rate still applies to collectibles like coins, art, antiques, or rare automobiles. A 25% rate exists for section 1250 recaptured gain on real estate. The new 15% rate is 25% lower than the old 20% rate. The new 15% rate is also applied to qualified stock dividends.

Consider the impact of these changes on the previous example. If the \$25,000 trust distributions were categorized as capital gains and qualified dividends, the tax liability would be further reduced and the beneficiaries' spendable income further increased. \$25,000 reported in this

fashion would generate a tax liability of just \$3,750. The income recipient would be left with \$21,250 after taxes. The income tax liability would be cut by more than half!

Newly proposed IRS regulations make further adjustments to the four-tier payout system to provide guidance on how charitable trust distributions are taxed. Even though the system generally retains its "worst out first" approach, this guidance is welcomed because it will help with tax reporting (see "Planning Matters" in the February 2004 issue of *Give & Take*).

These changes should benefit both existing and new charitable trusts and gift annuities. Donors with existing unitrusts may even wish to consider additional contributions to them now that the stock market may be on a renewed upward swing. Potential benefits include current income tax deductions, locking in capital gains, no new drafting fees, more spendable income, and a tax-free investment environment within the trust. New trusts may be particularly attractive to donors wishing to diversify their investment on a tax-free basis, increase the cash flow from assets, save on income taxes, lock in gains, and provide for their favorite charities. 

Upcoming Seminars for Educational Fundraisers

Those charged with raising funds for the nation's educational institutions should take note of two upcoming seminars that are likely to be of interest. More information is available at the Council for Advancement and Support of Education's Web site at www.case.org. Featured presenters include David Dunlop, Robert F. Sharpe, Jr., Buck Smith, Charles Collier, and other leading experts.

Relational Fund Raising: Inspiring the Largest Gifts of a Lifetime
June 7-9, Washington, D.C.

Structuring the Largest Gifts of a Lifetime
June 9-11, Washington, D.C.

Sharpe Seminar Series

Featured Seminar: 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?

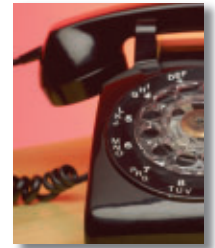
These and other topics will be explored in the popular Sharpe seminar devoted to the process of developing and managing effective planned gift relationships. Beginning with how to handle initial requests for information, this seminar focuses on what to do before, during, and after a personal visit.

Also included is an exploration of various ways to work most effectively with donors' advisors to help complete planned gifts.

Special attention is also 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 or previous attendees of "An Introduction to Planned Giving." [G&T](#)



Upcoming Seminar Training Dates

Managing Planned Giving Relationships

Chicago
April 15-16
New York
August 4-5

An Introduction to Planned Giving

Chicago
April 13-14
Philadelphia
June 24-25
New York
August 2-3

Major Gift Planning

Washington, D.C.
April 1-2
Chicago
May 17-18
New York
September 9-10

Strategic Gift Planning

Memphis
December 13-14

Multiple registration discounts are available. For more information or to register, please contact The Sharpe Group. Phone 1-800-238-3253, ext. 5360 Fax 901-761-4268 Web site: www.sharpenet.com E-mail: seminars@rfsc.com

On the Agenda for 'Managing Planned Giving Relationships'

Day One

- The Nature of Planned Giving Relationships
- Preparing for Donor Contact: Getting to Know Your Donors
- Effective Use of Written Communication
- Effective Use of the Telephone
- Evaluation of Donor Contacts

Day Two

- The Personal Visit
- Ongoing Cultivation and Stewardship
- Managing Important Relationships AFTER the Gift

See www.sharpenet.com/seminars for a complete agenda and dates for this and other Sharpe seminars.

What Attendees Are Saying About Managing Planned Giving Relationships

"All presentations were excellent . . . touched on areas that are very high on our interest level at this time. I look forward to having all of our development staff have this learning experience."

--Roger Bouchard, President, Florida Boys Youth Ranches, Boys Ranch, FL

"Excellent—wonderful interactive seminar. I'll definitely recommend this to others!"

--Kerri Melley, University of Rochester, Eastman School of Music, Rochester, NY

"This seminar is a wonderful way to combine the 'nuts and bolts' of planned giving with the reality of actually visiting with the donor about their goals."

--Sandi Tuttle, Mercy Foundation, Des Moines, IA

Board Member Turned Fundraiser Shares Insight

Joe Dinnison's experience in the worlds of asset management and real estate development made him an ideal choice to become a board member at Whitworth College. Then, after 20 years of service on the board, this Whitworth alumnus made the transition from board member to executive director of the Whitworth College Foundation. Here Mr. Dinnison shares with Give & Take readers both the unique perspective his past experience allows him to bring to his new position and the perspective on life he has gained by working with an older generation of donors.



Joe Dinnison

Give & Take: What led you to a career in fund raising?

Dinnison: Before taking on my current role as executive director of Whitworth's foundation, I worked for years as a retail broker, helping to manage the college's foundation and endowment assets. In 1994 I left that field to focus on commercial real estate development. For me it was a shallow existence, and I found that I really missed the relationships I had been able to form with wonderful and thoughtful individuals through my close relationship with Whitworth. A couple of years ago the board held a search for a new executive director of the Foundation, and I decided to change careers and assume that role.

It was a great move for me. I really enjoy working with people in their seventies, eighties, nineties, and beyond, and my new position, which I've held for just over a year, allows me to do just that.

Give & Take: And you've chosen a very good subset of that generation to work with—those who have chosen to give back to their community and to make a difference.

Dinnison: Not only that—Whitworth graduates are special people. In the past Whitworth had a reputation for producing future missionaries and ministers, and many of the older alumni have made giving back to society their life's work. These people have lived life, have reached out to their communities, and have made a difference in the lives of others—much more so than many of us. I find them to be a continuing source of inspiration.

Give & Take: I understand that one of these donors is particularly inspiring—a 103-year-old man who just established a new gift annuity with Whitworth. How did this gift come about?

Dinnison: This donor is an extraordinary man.

Born in 1900, he married but never had children. He lost his wife only a few years ago when she was 100. This gentleman is truly an example of the "millionaire next door." He made his living teaching for 40 years at the local high school and accumulated his wealth by living modestly and investing wisely.

He and his wife shared their wealth with a number of local nonprofit institutions over the years. Their relationship with Whitworth started in 1979 when they set up a charitable remainder trust and then made four additional gifts to that trust. He set up his first gift annuity in 1993, followed by another in April 1999. This is his third gift annuity with Whitworth.

Give & Take: How do you communicate gift planning ideas to your constituents?

Dinnison: For several years we have created and mailed customized letters to planned giving prospects, providing information we thought would be relevant to them based on what we know about their situation in life. We also focus on maintaining an ongoing relationship with previous donors through follow-up letters and phone calls. In addition, we just started a newsletter program with Sharpe, the first issue of which will be mailed this spring.

We also try to hold events for local supporters, such as a tea we recently sponsored for a number of donors who all live in the same retirement community. It was a real success and helped to strengthen the bonds that already exist between Whitworth and these supporters.

Give & Take: As a former board member, what do you think development officers can do to facilitate their relationships with members of the board?

Dinnison: The key to a successful relationship with the board is to involve board members in what is going on at every possible level of the organization. Board members are typically people who are very committed to the institution and want to help, so our fund-raising officers spend some time at every board meeting explaining what we do and how the board can be a part of it.

At most board meetings we go over examples of gifts we have just completed so that the board will understand everything that's involved in setting up a charitable gift. The more they know about how charitable gifts come about the better they will understand how to be more effective in their roles and how to help us generate new gifts.

Back in the 'Market' for Planned Giving? ...Continued from page 1

the additional capital gains saved by “giving a paper profit” that has never been taxed continues to hold great appeal. In fact, some major donors may be surprised to discover that they may be able to give more today at a lower after-tax cost!

A case in point

Consider a donor that gave a \$10,000 check to charity in the past when he or she was subject to the highest ordinary income tax rate of 39.6%. The after-tax cost of making the gift was \$6,040 (\$10,000 - \$3,960), assuming it could all be deducted in the year of the gift. This year, under the highest marginal tax bracket of 35%, the after-tax cost of the cash gift has increased by \$460 to \$6,500 (\$10,000 - \$3,500).

Suppose that the donor identifies a highly appreciated stock that had been purchased for \$1,000 and is currently valued at \$11,000. The after-tax cost of the gift is determined by subtracting the tax savings from the charitable deduction and the capital gains tax that is avoided. Here's how the numbers work:

\$11,000	Gift of appreciated stock
-3,850 (\$11,000 x .35)	Income tax savings
-1,500 (\$10,000 x .15)	Capital gains tax avoidance
<u>\$5,650</u>	After-tax cost of gift.

From an accounting standpoint, the cost of this \$11,000 gift is lower than the previous \$10,000 cash gift! Obviously, the exact savings must depend on the donor's tax bracket, basis in the security, and other factors. Still, this example serves as an illustration of the attractiveness of gifts of appropriate appreciated assets as compared to cash. Our current environment may thus cause an even broader group of donors to consider gifts of appreciated assets.

Beyond outright gifts

In addition to their appeal for funding outright gifts, appreciated securities have also gained in attractiveness for a variety of split interest gifts such as gift annuities and charitable remainder trusts. Distributions from these arrangements that are categorized as long-term capital gain or qualified dividends are likely to be taxed at 15% rather than at a rate as high as 35%.

Some planned giving donors that previously had established a bequest or other simple remainder gift may wish to consider a life income gift in addition to or in place of the original charitable bequest. As the estate tax issue goes away for most individuals, current tax and income planning may be increasingly important. For example, donors that had previously included a charity in their wills for \$25,000 may find that a charitable gift annuity funded with appreciated securities can provide attractive payments for life and create current income tax savings.

A number of other specific strategies exist to meet personal and philanthropic goals with gifts of appreciated assets, but charities must inform the donor and advisors about them or this opportunity may be lost. Sharpe provides a number of publications designed to help nonprofits communicate giving opportunities to their constituents. Contact a Sharpe representative to learn more about how Sharpe's booklets “Better Estate Planning,” “A Guide to Giving in 2004,” and “Giving Securities” (see page 6) can help. Those who wish to polish their skills in using appreciated assets to fund charitable gifts may also find the popular Sharpe Group seminars described on page 3 to be of interest. [G&T](#)



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.

Fundraiser Shares Insight ...Continued from page 4

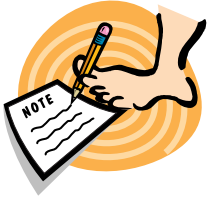
Give & Take: What is your favorite part of your job?

Dinnison: I love working with active seniors. I feel honored to help dedicated people fulfill their desire to give and leave a legacy for younger generations.

Give & Take: What advice do you have for people just starting out in the field?

Dinnison: Don't think too hard! Understand how gifts work, but realize that the most important part of your job is forming and nurturing relationships with persons who are among your organization's most dedicated supporters. You don't have to be an expert in every technical detail. You can always ask for help or advice from those who are. But you do have to get over your fear of picking up the phone and focus on the people and their relationships to your institution. They're the heart and soul of development work. [G&T](#)

Footnotes



Booklet of the month

“Giving Securities”

The Dow has hit the 10,000 mark yet again, and many commentators predict that the current upswing will continue. Many friends of your organization who own stocks may have newly appreciated portfolios thanks to the market’s rebound. Are your donors aware of the potential tax-saving benefits they can enjoy by making charitable gifts with appreciated securities? Now may be a good time to remind them.

The Sharpe booklet “Giving Securities” provides in-depth information to donors and friends who may have both the means and the desire to make a real difference in your gift development efforts but have not yet realized the potential contained in their stock portfolios. “Giving Securities” explains to donors how their stock gifts to charitable organizations and institutions can lead to maximum tax benefits for themselves, especially when compared to gifts of cash.

This booklet discusses in detail several strategies that could be invaluable to those with the capacity to make larger gifts while maintaining their own financial security. Special sections focus on:

- Choosing the right asset to give
- How to give securities and still “keep” them while enjoying a new, higher tax basis
- How to “balance” capital gains tax through charitable giving
- How to “give out of the market” and receive a life income
- What to do when securities have lost value
- How to complete gifts of securities
- And other special planning strategies.

Consider providing “Giving Securities” to your constituents to encourage gifts of appreciated securities during this high point in the stock market. It could be the cornerstone of a special mailing to your top donors or could

serve as an informative follow-up booklet to a newsletter mailing to the remainder of your donor list. It may also be a helpful insert as part of acknowledgment letters to donors of larger amounts.

This booklet also contains a technical advisory section that may be particularly helpful for professional advisors who are assisting their clients with gifts of stock for the first time in years. For more information about “Giving Securities” or to place your order, please call 1-800-238-3253, fax the enclosed order form, or visit www.sharpenet.com/donor.

’Tis the season for memorial gifts

A number of special holidays are just around the corner. Mother’s Day, Father’s Day, Memorial Day, graduations, and religious holidays all cause donors to pause and remember those who have made important impacts on their lives. Many may feel inspired by these holidays to make charitable gifts in honor or in memory of a loved one.

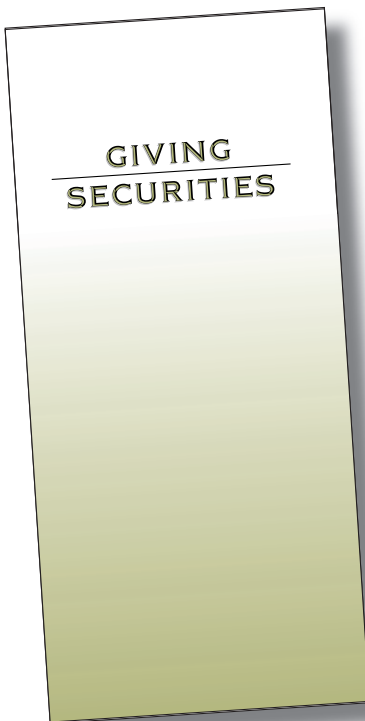
Make sure your organization has materials on hand to remind donors of the memorial giving season and to handle inquiries your office might receive. The Sharpe Group offers publications designed to help you communicate the special rewards of current and deferred gifts in memory or honor of loved ones. All can be personalized for your organization quickly and conveniently.

The brochure “Giving Through Living Memorials” explains the many memorial and honorary 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.

Another excellent resource on memorial giving is Sharpe’s 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 on Tomorrow” also offers donors a general, easy-to-read review of the most popular ways to give, accompanied by helpful examples.

Call 1-800-238-3253 for details of these and other Sharpe gift planning publications.

News and ideas about The Sharpe Group’s services.



6 Years Ago in *Give & Take*

This month's lead article, "Are Donors Back in the 'Market' for Planned Gifts?," compares the current market upswing with that of the mid-to-late 1990s. Like then, gifts of appreciated property are taking on a more prominent role in the planned giving world. Read below for some timeless advice from the December 1998 issue of Give & Take on the best ways to handle gifts of securities.

With advance preparation, stock gifts can be quickly processed and put to work for the nonprofit recipient.

For example, now may be the time to review the status of organizational accounts with leading brokerage houses. You can complete or update the necessary forms and make certain advance decisions, such as determining your organization's policy on whether or not to immediately sell donated securities. You will also need to obtain your primary broker's "DTC" (Depository Trust Corporation) number, which is similar to a bank routing number. Donors will need the DTC number so that their representatives can transfer shares electronically to your organization's account.

The better prepared you are when a donor decides to make a gift of securities, the more professional you will be in handling these transactions. This builds greater confidence in your institution in the mind of the donor.

Taking stock—a checklist

1. Who owns the security? If it is jointly held, for example, both parties must sign a stock power or letter of instruction to their broker.
2. How is it owned? The way a security is transferred changes depending on whether the donor holds the actual certificate or the asset is held in "street name" in the donor's brokerage account.
 - If the donor holds the certificate, the donor should hand deliver or mail it to the charity in one envelope. A stock power signed in blank should be mailed in a separate envelope.
 - For street name accounts, the donor should instruct his or her broker in writing to transfer the asset to the charity's account or brokerage firm.
 - If the donor wishes to give a mutual fund, the charitable recipient may be required to open an account with the fund in order for shares to be transferred without triggering capital gains for the donor. Certain "load" funds can be transferred in much the same manner as individually traded securities.
3. When is the gift complete? This question is not as simple as it may seem. The general rule is that the

gift is complete when the donor has irrevocably relinquished all ownership and control over the property.

- If hand delivered, the gift is complete upon delivery.
 - If the certificate and stock power are mailed separately, the date of gift is the latter of the two postmarks. For this reason, it is a good idea to keep all envelopes associated with stock gifts.
 - If a broker is given transfer instructions, the gift is generally complete when assets are actually transferred into the charity's account (in the case of a DTC transfer, it is not clear whether the gift is complete on the date of transfer out of the donor's account or the date of receipt by the charity's account).
4. What is the value of the donor's gift? Gift value for the donor's tax purposes is determined on the date of the gift and is not related to the value the charity receives upon selling the property.
 - Establishing value for tax purposes is ultimately the donor's responsibility.
 - The charity should acknowledge the gift by describing the assets contributed (number of shares, etc.) and the date the gift was received.
 - If a value is stated as a matter of convenience and to indicate the amount of credit being given to the donor for his or her gift, a disclaimer should always be added. The disclaimer should state that donors are encouraged to seek their own counsel in tax matters.
 5. If property has decreased in value, then donors should generally be advised to sell the securities themselves so they may be able to claim all or a portion of the loss for tax purposes and then give the proceeds.
 6. Be sure the broker understands instructions to transfer the asset itself and not to sell the securities and donate the proceeds. This is unfortunately a common mistake and one that results in capital gains tax for the donor. **G&T**



• • • •
How to
handle
gifts of
securities
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Where Solutions Begin

Now is a time when many Americans are reevaluating their personal, financial, and charitable priorities. This includes their charitable gift commitments. Are you prepared to help them make their gifts in today's environment in the most effective ways?

Sharpe seminars are designed to provide useful ideas and practical advice geared to help organizations and institutions assist donors, and in so doing reach their full potential in today's competitive environment.

Make plans today to attend "An Introduction to Planned Giving" and "Managing Planned Giving Relationships."

An Introduction to Planned Giving	Managing Planned Giving Relationships
Chicago April 13-14	Chicago April 15-16
Philadelphia June 24-25	New York August 4-5
New York August 2-3	

In these complementary seminars, a team of experienced presenters will focus on the fundamentals of gift planning. Topics will include making initial contact with donors, helping to plan the gift, and maintaining relationships with donors, advisors, and other heirs after the gift is made. See page 3 for more information.

Enrollment is limited. Please call 1-800-238-3253 or visit us online at www.sharpenet.com/training for more information or to reserve your place.



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