

Give & Take

News and Ideas for Development Executives of Nonprofit Organizations

New Gift Valuation Standards Released

In early April, the National Committee on Planned Giving (NCPG) released its "Valuation Standards for Charitable Planned Gifts." The suggested standards represent the culmination of over three years of work by a twenty-person task force representing both the charitable community and financial services providers whose work includes determining the value of planned gifts.

The standards are intended to augment other practices that are currently used in accounting for planned gifts, including U.S. Treasury Department formulas for determining the amount of charitable deductions, Financial Accounting Standards Board (FASB) guidelines for reporting gifts on nonprofit financial statements, and methods for counting gifts in the context of capital campaigns furnished by the Council for Advancement and Support of Education (CASE).

As stated by Jeff Comfort, director of planned giving at Georgetown University and chair of the task force in the press release published by NCPG, "These methodologies are valid and useful for their intended purposes. However, none are intended to estimate the ultimate value of a planned gift to the charity that will receive it. In many cases, the accepted methods for accounting, counting, and determining the charitable deduction substantially underestimate the value of planned gifts. The valuation standards help charitable organizations and donors understand the value of a planned gift in terms of its present purchasing power. That present value is reached by considering real-world data, including the standards of the Prudent Investor Rule and historical indices of investment performance and inflation."

How they work

The NCPG standards are straightforward in their methodology yet flexible enough to reflect the different experiences of distinct charitable entities. The standards start with the amount used to fund a gift vehicle and consider the amount and nature of the payments to be made to donors. They then reflect the amount expected to be ultimately received by the charity in light of anticipated investment experience based on historical norms, and finally discount that amount based on lost purchasing power during the period of time until the gift comes to fruition.

This process is different from the methodology underlying the determination of the charitable deduction for a gift. In the case of gift annuities, for example, the charitable deduction amounts to the difference between what a donor gave and the present value of the payments retained by the annuitant. This method does not, and is not intended to, reflect the amount it is anticipated will be received by the charity.

Take the case of a \$10,000 gift annuity paying 7.1% for the life of a 75-year-old annuitant. Note that the charitable deduction varies widely depending on the applicable federal midterm rate (AFMR) in effect at the time the annuity is completed. The discount rates used in the chart below, which vary by as much as four percentage points, have each been a monthly discount rate in one of the months since March 2000.

<u>Month of Gift</u>	<u>AFMR Discount Rate</u>	<u>Charitable Deduction</u>
March 2000	8.2	\$5,342
November 2000	7.2	\$5,087
July 2001	6.2	\$4,808
August 2002	5.2	\$4,498
February 2004	4.2	\$4,154

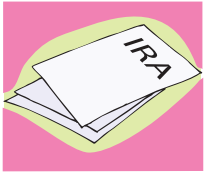
Under the NCPG gift valuation standards procedure, the value to the charity is determined by first calculating the amount the charity can expect to receive. If the charity pays 7.1% of the amount used to fund

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Planning Matters



What you
should know
about IRAs

Give & Take:

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Understanding IRAs

As most of those in the fund-raising world know, Individual Retirement Accounts have evolved since their creation in the 1970s from limited use among a handful of relatively high income Americans to one of today's primary vehicles for building economic security in retirement years. Over the years, eligibility for tax-favored retirement plans has expanded and changed to include variations on both the traditional IRA and the newer Roth IRA so that the IRA has now become an important part of the retirement portfolios of millions of workers. Because of this fact, it is crucial for gift planners to have an adequate understanding of IRAs and the role they can play in fund development efforts.

History of IRAs

The first provisions for IRAs were created in 1974 under the Employee Retirement Income Security Act of 1974 (ERISA) as a plan limited to workers who did not have access to employment-based plans. In the early 1980s the IRA was extended to all workers under provisions of the Economic Recovery Tax Act of 1981 (ERTA).

However, after taking strides to make the IRA more accessible, Congress then restricted the tax deductibility of certain IRA contributions and created non-deductible IRAs as part of the Tax Reform Act of 1986. (Note that even though the contributions were not deductible, the funds could grow on a tax-deferred basis.)

The Taxpayer Relief Act of 1997 expanded the non-deductible IRA through the creation of the Roth IRA, under which after-tax dollars could grow on a tax-deferred basis and eventually be withdrawn tax free. Although the Roth IRA is derived from the traditional IRA, the tax treatment of withdrawals dictates that traditional IRA funds will continue to be the preferred choice for *inter vivos* or testamentary charitable gifts.

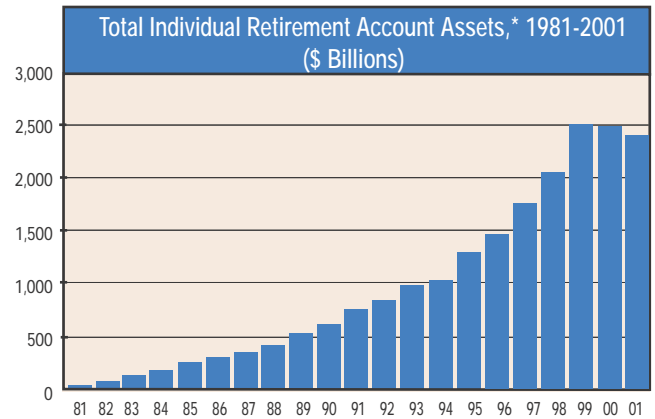
In good news for taxpayers, the 2001 Tax Act increased the contribution limits for IRAs. Recently, the CARE Act and other proposed legisla-

tion have included provisions to simplify and encourage the use of IRA assets for charitable purposes, but such legislation has yet to become law.

Value of retirement plans

The value of assets held in IRAs grew steadily from 1981 to 1999 before experiencing declines in 2000 and 2001 as a result of investment market declines. Initially, the growth of IRA asset value was fueled primarily by pre-tax contributions from individuals. By the late 1990s, however, most of the growth was attributable to investment returns and rollovers from various other qualified employee-sponsored retirement plans.

IRA asset value peaked at slightly over \$2.5 trillion before declining to around \$2.4 trillion in 2001. During that year fewer than 3.5 million individuals out of the more than 130 million federal income tax returns for 2001 reported receiving IRA payments. (See page 4 for additional information.)



Source: Federal Reserve Board, Flow of Funds; Employee Benefit Research Institute.

* Asset levels held at bank and thrift institutions include Keough account assets.

Of the 3,448,457 individuals in 2001 reporting IRA payments, 836,593 had an adjusted gross income (AGI) of under \$30,000. Another 895,335 persons had an AGI in the \$30,000 to \$49,999 range, and 1,114,172 fell into the \$50,000 to \$99,999 range. In the highest income group, 496,167 returns revealed an AGI in the \$100,000 to \$200,000 range. Just 106,189 returns fell in the over \$200,000 category.

Implications for gift planners

With the possible passage of legislation to encourage charitable gifts from IRAs still loom-

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Sharpe Seminar Series

Featured Seminar: An Introduction to Planned Giving

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

Presenters 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. [G&T](#)



Upcoming Seminar Training Dates

Managing Planned Giving Relationships
New York
August 4-5

An Introduction to Planned Giving
Philadelphia
June 24-25
New York
August 2-3

Major Gift Planning
Chicago
May 17-18
New York
September 9-10

Strategic Gift Planning
New York
August 16-17
Memphis
December 13-14

On the Agenda for 'An Introduction to Planned Giving'

Day One

- Introduction to the Planned Giving Process
- Understanding the Life Cycle of Donors
- Basic Planning Considerations
- The Charitable Tool Box—Part One
- The Charitable Tool Box—Part Two
- The Gift Planning Matrix

Day Two

- Introduction to Property Gifts
- What Is the Gift Worth?
- Gift Acceptance Policies
- Marketing Planned Gifts
- Cost-Effective Planned Giving
- Putting It All Together

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

What Attendees Are Saying About 'An Introduction to Planned Giving'

"RFSCO and their professionals have opened my eyes to the complete 'big picture' of how to, what to do, and what to expect in planned giving."
—H.C. "Buzz" Dixon, Family Connection, Inc.
Anderson, IN

"The speakers knew their subjects and had good examples based on their experiences; content material was well integrated and reinforced from speaker to speaker."
—Karen Crenshaw, University of Pittsburgh, School of Dental Medicine, Pittsburgh, PA

"This is the most worthwhile professional conference I can remember attending."
—Mr. Chandler Battaile, Assoc. for the Preservation of Virginia Antiquities
Richmond, VA

"The personal experience of the presenters is invaluable. Their ease and confidence make it very easy to pay attention."
—Kate Hoffman, Foundation for LSU Health Sciences, New Orleans, LA

Multiple registration discounts are available. For more information or to register, please contact The Sharpe Group.
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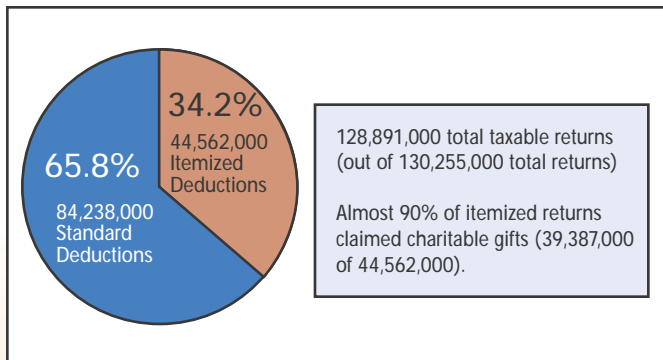
A Closer Look: Income and Charitable Giving

Most development officers are aware of the well-established link between income and charitable giving. But finding reliable information about trends in income can often pose a challenge, even for experienced fundraisers.

Luckily, the Internal Revenue Service provides a store of accurate and timely information about the wealth and income of America's taxpayers. A recent article distributed by the IRS, entitled *Individual Income Tax Returns, 2001* by David Campbell and Michael Parisi, offers some valuable insights into current financial trends. Although this report examines data from 2001, many of the issues relevant then continue to affect gift development efforts today.

The big picture

For tax year 2001, taxpayers filed over 130 million individual income tax returns. In that year, reported adjusted gross income (AGI) fell 3.1% from 2000's level to \$6.2 trillion. This was the first reported drop in AGI since 1949. Taxable income fell even faster—to \$4.3 trillion, a drop of 6.1%. This decline is attributable to an increase in the amount of reported exemptions and deductions.



One of the primary reasons behind the drop in adjusted gross income is the stock market performance of recent years. Over the four-year period leading up to 2001, the amount of net capital gain reported on individual income tax returns had more than doubled. But after the stock market bubble burst in 2000, net capital gain saw a significant drop.

Tax year 2001 also saw decreases in other income components including dividends, IRA distributions, and taxable interest. Although salaries and wages increased slightly, they experienced the smallest increases since 1958. Notably, the only component of income that saw a significant increase was unemployment compensation, which increased 59% over the previous year.

Adjusted Gross Income Distribution for 2001

Income Ranges	Number of Returns
Under \$10,000	26,384,333
\$10,000 - \$24,999	33,351,523
\$25,000 - \$49,999*	33,019,292
\$50,000 - \$99,999	26,463,672
\$100,000 - \$199,999	8,469,199
\$200,000 - \$499,999	2,018,372
\$500,000 +	548,846
Total 2001 Individual Income Tax Returns	130,255,237
	*average AGI \$47,373

While income levels decreased, both the number and total amount of itemized deductions increased slightly over figures from 2000. Itemized deductions were claimed on 34.2% of all individual income tax returns, and the average total for itemized deductions was nearly \$20,000. All major component deductions increased, *except for charitable contributions*.

The charitable component

Though the number of returns claiming charitable contributions increased by almost two million persons to 39.4 million for 2001, the overall amount of charitable contributions claimed as itemized deductions fell 1% to \$139.2 billion. This was the first decline in charitable deductions since 1987, when the non-itemizer charitable deduction provision was allowed to expire.

The authors of the report attribute the fall in charitable contributions itemized for 2001 to the 19.6% drop in contributions other than cash. During the 1990s, non-cash contributions increased sixfold, due in part to the increased value of stock market related assets. As the stock market fell, the non-cash component of charitable giving dropped by some \$9.3 billion, with a resulting impact on overall contributions claimed by itemizers. On the other hand, cash contributions actually *increased* over figures from 2000 among those itemizing deductions.

Ongoing impact

Many of the financial factors that plagued taxpayers in 2001 continued in 2002 and 2003. A stock market recovery began in late 2003, however, and seems to have stabilized the market around the 10,000 level in recent months, which should bode well for gifts of appreciated assets. Because of the

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the gift annuity, or \$710, each year for the 12.4-year life expectancy of the annuitant and earns a net after expenses of 5% (the amount assumed in determining the gift annuity rate), the charity can expect some \$6,657 to remain at the death of the annuitant.

End of Year	Principal Amount
1	\$9,790
2	\$9,570
3	\$9,338
4	\$9,095
5	\$8,840
6	\$8,572
7	\$8,290
8	\$7,995
9	\$7,684
10	\$7,359
11	\$7,017
12	\$6,657

The NCPG task force concluded that unless the charity is offered a choice between the gift annuity and a gift of cash, the “opportunity cost” to the charity while it awaits receipt of the remainder from the gift annuity is the loss of purchasing power of those funds. If a long-term inflation rate average of 3.4% is used to discount the \$6,657 for loss of purchasing power, the current purchasing power of the anticipated remainder is \$5,632. Note that this amount is from 5% to 36% higher than the charitable deductions listed above, which fluctuate widely based on changes in the AFMR rate.

The charitable deduction is designed to place a value on the amount given by a donor using interest rates in effect during that immediate time period. However, the performance over time of charitable gift annuity funds, remainder trusts, and similar gifts—and therefore the real long-term value—will depend on the longer-term performance of investments in areas other than government securities and other factors. The NCPG standards thus recommend the use of investment assumptions that are based on longer time horizons and discount rates that are based on long-term inflation rates to more realistically reflect the charity’s loss of purchasing power. The amount reported under the NCPG standards will thus not vary as much during a given five-year time period as charitable deduction formulas that use federal midterm rates.


It should be noted that the earnings assumptions, discount rates, and mortality tables are intended only as suggestions based on broadly based experience. Charities are encouraged, where they deem it appropriate, to substitute earnings assumptions, inflation rates, and other variables that are more in keeping with their unique experience. The NCPG will periodically issue updated standard rates of earnings and inflation based on its recalculation of trends in those rates over time.

Revocable gifts

The NCPG standards also address the valuation of revocable gifts such as bequest commitments, charitable remainder trusts with revocable remainders, life insurance gifts, and other gifts that allow a donor to change his or her mind prior to death. These guidelines are intended for use only for internal planning and evaluation purposes. They offer suggestions for calculating the anticipated value of those gifts, discounting them to current purchasing power, and then applying a probability factor designed to estimate the probability of receipt of the gift given its revocable nature. This section of the standards takes a unique approach to this process and one that is certain to be of interest to organizations that discover large numbers of new bequest expectancies and other revocable gifts each year.

The new NCPG valuation standards should prove of use to many organizations and institutions as they seek to determine the effectiveness of their funding programs. According to the NCPG, they are expected to be useful in the following ways:

- Evaluating costs and benefits of planned gift fund raising.
- Determining the financial effectiveness of an organization’s current investment in gift planning.
- Allocating appropriate resources to a gift planning program.
- Setting planned gift fund-raising expectations within a comprehensive fund-raising program or campaign.
- Assessing the effect of certain variables (e.g. term of the gift, investment strategy) on the ultimate value of the gift to the organization.

For more information and to read the complete Valuation Standards, visit www.ncpg.org. 

Planning Matters...Continued from page 2

ing on the horizon, gift planners need to be aware of both current and potential IRA gift opportunities. To do so it is critical to understand the makeup of the IRA market. For upper, middle, and upper lower income IRA holders who itemize, IRA assets may represent a convenient source for making charitable gifts while conserving non-IRA cash balances. Although the amount withdrawn will be reported as income on tax returns, there will be a corresponding charitable deduction for the same amount as an itemized deduction. For those over 59½ who are not subject to a penalty for early withdrawal, the result will generally be a wash for tax purposes.


Some high-income taxpayers who fund gifts with IRA assets may find that they must make slight downward adjustments to their itemized deductions. These gifts will generally be deductible up to 50% of their AGI. To avoid being taxed on donated amounts, care should be taken not to exceed that limit, even though the excess deduction may be carried over for use in future years.

Estate gifts enjoy unlimited charitable deductions. Because any non-charitable heirs would have to pay taxes on traditional IRA distributions, those who wish to make a charitable gift from their estates may choose to give from IRA funds while leaving other assets that are taxed more favorably to family and other loved ones.

If the CARE Act is eventually passed, it will be important to understand the limitations of any new law in order to take full advantage of its provisions. Keep these factors in mind:

- All current proposals deal only with IRA accounts, not 401(k)s, 403(b)s, or other plans.
- There are likely to be age restrictions for outright or planned gift arrangements. The bill passed by the Senate calls for a minimum age of 70 for outright gifts and a minimum age of 59½ for other arrangements like charitable remainder annuity trusts, charitable remainder unitrusts, and gift annuities. The House bill provides for an age limit of 70½ for both outright and deferred gifts funded from IRA assets.
- There will be no additional income tax deductions. Transactions will simply be a wash for tax purposes.
- All payments from life income gifts funded with IRA assets will be taxed as ordinary income taxed at the highest applicable rate. There will be no tax-free return of principal or lower tax rates for distributions of capital gains or dividends.
- Proposed life income gifts may qualify only for the donor and spouse, not for third parties.

Given these limitations, perhaps the greatest benefit for the nation's nonprofits will result from simplifying rules and encouraging charitably motivated persons to consider these assets as an additional source for funding outright gifts in retirement years.

If you would like more information about how proposed federal tax legislation may affect gifts of retirement plan assets, visit www.ncpg.org. See page 3 for upcoming training opportunities that feature the use of retirement plan assets in charitable planning, or visit www.sharpenet.com/seminars. 

Charitable Giving

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reduction in gifts of appreciated assets noted above, however, it may be especially important that nonprofits remind donors of the benefits of such gifts in light of increases in stock market values in recent months.

Most interest rates remain low, draining the incomes of those relying on interest-bearing investments—typically retirees. However, those low interest rates do have a positive side, as they are helping real estate prices remain stable or even increase in many parts of the country. Lower interest rates also tend to cause bonds to increase in value. So although there has been little growth in individual income, asset values represented by real estate and securities remain high.

Implications for fundraisers

The good news for development executives is that even though Americans faced a stock market decline and a loss of income in 2001, they continued to make charitable giving a priority. Although the total amount of charitable gifts slightly declined, Americans continued to give at a surprisingly high level. In looking to the future, it is reassuring to note that in spite of the events of 9/11 and other challenges they faced in 2001, American taxpayers continued to give generously to the nation's nonprofit community and will likely do so again in years ahead.

To help maximize giving for 2004, nonprofits should make an effort to focus on retention and upgrading of current donors, while selectively seeking new supporters. One way to appeal to established and prospective donors alike is to structure the "ask" in a way that is most appealing and convenient to the donor.

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Footnotes

Planning ahead for year-end

It takes time to plan for success. One of the biggest differences between organizations that meet their goals and those that don't is the amount of time spent planning for the year ahead. And experienced fundraisers know that having a productive year-end giving season is vital to success in any given year.

Despite this fact, some wait until late summer or fall to start thinking about how to make the vital year-end giving season most productive. By the time they decide what type of approach is most appropriate and create and produce materials, it may be too close to the December 31 deadline for making tax-deductible gifts—especially if donors would like to take advantage of special savings from gifts of securities or other appreciated assets.

Don't let indecision or procrastination determine your results. Take time now to plan how best to motivate your donors to make an especially generous gift this fall.

This year, The Sharpe Group offers three brochures designed to motivate and inform potential donors of the benefits of year-end giving.

"Giving Thanks at Year-End" is especially appropriate for mailings scheduled to arrive around Thanksgiving.

"Giving at Year-End" explains a variety of gift options, including cash, appreciated property, and retirement plan and life insurance assets.

"Giving Before December 31" is designed for use later in the season, when donors may need a more direct reminder of the December 31st deadline for making gifts.

All of these brochures have been updated to reflect recent tax law changes. To reserve materials for use in support of your development efforts, call 1-800-238-3253, fax the enclosed order form to (901) 761-4268, or visit us on the Web at www.sharpenet.com/yearend. See below for convenient billing options.



News and ideas about The Sharpe Group's services.



Sharpe's billing options make budget transitions easier

With fiscal year-end rapidly approaching for many nonprofits, Sharpe's flexible billing options may be just what you need to extend your current budget into the new fiscal year. Call 1-800-238-3253 today to speak to a Sharpe representative about these possibilities:

- Use funds remaining in this year's budget to purchase products or services that you intend to use in the next fiscal year.
- Postpone billing for goods or services used this fiscal year until next year's funds become available.
- Divide billing over two budget years.

These flexible billing options apply to a range of Sharpe services—including publications, seminars, and consulting services. Call today to learn more about how Sharpe can help you make a smooth transition to the new fiscal year and achieve your goals both this year and next. **G&T**

Charitable Giving

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As noted above, the stock market recovery means that non-cash gifts may hold renewed attraction for major donors and potential planned givers. (See the March 2004 *Give & Take* article on securities.) Major donors will often prefer gifts funded with "paper gains" to cash gifts in times of market uncertainty and low interest rates.

Those who are cash poor and property rich may find charitable trusts, gift annuities, or other arrangements attractive. Fixed-payment gift plans may prove to be more appealing at the present than in the past due to reductions in interest rates and continuing stock market uncertainty. Keep in mind also that some 37 million taxpayers reported incomes of \$50,000 or more and a large percentage of those itemize charitable gifts and other deductible expenses. It is thus important that donors be reminded that in times of slower income growth, the tax savings they enjoy as a result of gifts of cash and other property may be especially welcome. **G&T**

2004

Year-End Brochures

The Sharpe Group'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 this time of economic uncertainty, 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



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