

Give & Take

News and Ideas for Development Executives of Nonprofit Organizations

Beyond Cash Gifts—How Seniors Hold Assets

While gifts of cash are the largest source of charitable gifts, experienced fundraisers have long known that larger gifts are much more likely to come in the form of assets other than cash—most often gifts of marketable securities. For example, the Council for Aid to Education (CAE) reported that the average stock gift to higher education in 2003 was \$34,219. Charitable remainder trusts, gift annuities, and similar gift planning arrangements are also regularly funded using assets other than cash. It is important, therefore, that fundraisers be aware of the manner in which donors, especially those with significant assets, hold their wealth.

The Internal Revenue Service periodically releases statistics on the composition of taxable estates based on estate tax filings as part of its *Statistics of Income* series. The most recent data covers estate tax return filings for 2002 and appeared recently as unpublished online data. This information serves to shed light on the composition of asset holdings of the wealthy at the time of their deaths.

Here’s a look at the latest figures:

Little change in stocks

The first impression on viewing the information from 2002 estate filings is how little change there has been since similar data from estates filed in 1995 was published. In 1995, 33% of the value of estates owned by males was held in the form of publicly traded stocks and mutual funds. The figure was 31% for estates of females. This is remarkably close to the 32.6% figure reported in the 2002 data, which was not broken down by gender. See page 5 for a breakdown of 1995 data.

Keep in mind that these figures represent assets held at the time of death. According to IRS data, the majority of those with taxable estates pass away in their late seventies and early eighties.

One lesson to be drawn from this information is the importance of emphasizing gifts of securities among even the oldest donors. When illustrating large trusts and other planned gifts in proposals for older donors, examples of gifts funded with appreciated securities may be especially appropriate.

As donors grow older, they can become more risk averse in their investments. It may be wise to encourage donors to give stocks that they believe may present greater risk of loss, benefit from capital gains tax savings, and then make use of cash they might otherwise have given to diversify their position in the market.

What about bonds?

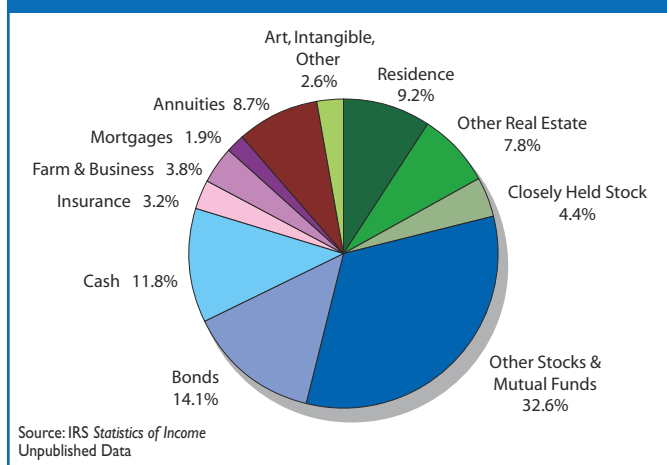
In 1995, bonds represented 22% of estate value for females and 17% for males. Why the difference? In that year, the age at death for the females whose estates were represented in the data was 80.9, compared to 75.3 for the males. As a general rule, as one ages, the more conservative investments generally become. Regardless of gender, older investors tend to have relatively less tolerance for the risk associated with investments in stocks. Because women typically outlive men, it makes sense that the estates of women have a higher concentration in bonds.

By 2002, however, we see a substantially lower percentage in bonds in taxable estates—down to 14.1%. Part of this decrease may be attributable to the lower interest rate environment in 2002. As interest rates fall, new bonds generally become less attractive.

The decrease in bonds may also be a result of the 2001 Tax Act and other legislation. The 2001 Tax Act

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What’s in Estates - 2002



Inside:

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- Implications of the new tax act for America’s nonprofits p. 4



Questions and answers about retirement plans

Planning Matters

Once again the charitable sector is aggressively lobbying for the passage of the CARE Act or other stand-alone legislation that would simplify and encourage gifts from individual retirement accounts (IRAs). This month's "Planning Matters" is devoted to some common questions about gifts from retirement plans, including when charitable gifts from these assets can make sense today while awaiting passage of the CARE Act.

Question: *Are we precluded from accepting or encouraging gifts from retirement plans until the passage of the CARE Act or other charitable legislation affecting IRAs?*

Answer: Not necessarily. In most cases charitable gifts may be arranged from these plans in a fashion that will, in effect, result in much the same tax treatment as under the proposed law.

Question: *Wouldn't donors of IRA assets receive additional tax benefits under the CARE Act?*

Answer: Not always. The various proposals basically make qualified charitable transfers "non-taxable" events, which, in effect, guarantees a "wash" for tax purposes that may already be possible under current law.

Question: *What do you mean by a "wash" for tax purposes?*

Answer: A "wash" occurs when there is a tax deduction that fully offsets a tax liability. For example, suppose I withdraw \$10,000 from my IRA and give that money to charity. On one hand I have \$10,000 of taxable income and on the other a \$10,000 tax deduction, resulting in no additional tax liability—hence a "wash."

Question: *Does this mean that all donors can now give funds from IRAs on a tax-free basis?*

Answer: No. Remember they generally must be over 59½ (the CARE Act includes similar age limits) and gifts must be structured in such a way that they create a deduction that fully offsets tax liability. This means that gifts must be within the 50% of adjusted gross income limitation and that the partial reduction

of itemized deductions for some high-income taxpayers must be considered.

Question: *Can you give an example?*

Answer: Suppose that you have a recently retired couple, both of whom are over the age of 59½, with a \$75,000 adjusted gross income. They would like to make an outright gift of \$25,000. They have an IRA worth over \$1 million. Under today's law, they can withdraw \$25,000 from their IRA and use those funds to make the gift, which is fully deductible up to 50% of their adjusted gross income. Note that the IRA withdrawal serves to increase their AGI to \$100,000, so their gift could be even larger.

Question: *What about the limit on itemized deductions for high-income persons?*

Answer: Persons with taxable incomes above a certain level (\$142,700 for joint filers in 2004) will find that their itemized deductions are reduced by 3% of the amount that their income exceeds the threshold amount. For instance, if a donor's income were \$100,000 over the threshold, his or her itemized deductions would be reduced by 3% of that amount, or \$3,000. Practically speaking, this limitation rarely affects charitable gifts. The \$25,000 gift described above would be unaffected.

Question: *What about people with incomes far in excess of the threshold?*

Answer: Take the case of a donor with \$1 million in income over the threshold. He or she would find that itemized deductions for taxes, mortgage interest, and other expenses would be reduced by 3% of that amount, or \$30,000, whether or not they made charitable gifts. If a taxpayer in this situation decided to make a gift from IRA assets, the gift would still result in a virtual wash for tax purposes. In this situation, a \$100,000 IRA withdrawal followed by a charitable gift in the same amount increases adjusted gross income by \$100,000, which would entail a reduction of the taxpayer's itemized deductions by \$3,000. The result is a 97% wash for tax purposes, with just \$3,000 of the withdrawal amount subject to tax. In a 35% tax bracket, some \$1,050 in tax would be due on the \$100,000 withdrawal. Keep in mind also that many wealthy donors will have other itemized deductions, such as taxes and mortgage interest, that are "fixed" and would arguably absorb the statutory reduction amount whether or not a charitable gift was made.

Give & Take:

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Sharpe Seminar Series

Featured Seminar: An Introduction to Planned Giving

This information-packed seminar offers an in-depth introduction to the process of charitable gift planning in today's complex environment. It is designed for those who are assuming responsibility for planned giving for the first time as well as those who have multiple duties and are looking for guidance in the best ways to spend what may be limited time and budgetary resources on planned giving.

Beginning with an overview of various types of fund development efforts and the role of gift planning in achieving greater success, this seminar examines the personal priorities of donors at different stages in life

and explains how gift planning vehicles can help remove obstacles to larger gifts from donors of all ages and wealth levels. Practical guidance on gift acceptance and valuation policies, program planning, budgeting, and implementation of effective gift planning efforts in programs of various sizes will be presented.

This seminar will prove useful to senior development managers and those responsible for other funding efforts, in addition to those who wish to expand their duties to concentrate more effort in charitable gift planning now or in the future. **G&T**



Upcoming Seminar Training Dates

An Introduction to Planned Giving

Memphis
December 2-3
New York
January 24-25

Managing Planned Giving Relationships

New York
January 26-27

Major Gift Planning

Cleveland
February 17-18

Strategic Gift Planning

Memphis
February 7-8

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'

"Terrific seminar. On time, on target, on schedule. Personable and prepared presenters. Will use the notebook often."

—Caitlin Davis, University of Nebraska Foundation, Lincoln, NE

"I attend a lot of seminars—this is the best one I can remember in a long time."

—Richard Raabe, Wisconsin Lutheran Child and Family Services, Milwaukee, WI

"Excellent seminar which met expectations formulated by advance materials and recommendations of colleagues. Manual is superb reference—succinct and well organized. Thank you for two informative, well-executed days."

—Betty Hungerford, Homeland Center, Harrisburg, PA

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@sharpenet.com

New Tax Law Features New Rules for Charitable Gifts

On October 22, President Bush signed the American Jobs Creation Act of 2004. Included as part of that legislation were a number of changes in federal tax laws that may have an impact on the fund-raising efforts of some nonprofits. The changes were intended to raise revenue by limiting charitable deductions for certain types of gifts and tightening documentation requirements for others. What follows is a summary of the primary provisions of the Act. See H.R. 4520 at thomas.loc.gov for the full text of the legislation.

Gifts of patents

The new law provides that gifts of patents will be deductible at the lower of either their fair market value or the cost of creating the patent. This is a change from existing law that allowed deductions in some cases for the full fair market value of a patent. This change results in equalizing the tax treatment of gifts of copyrights and patents.

Gifts of copyrights have long been limited to the lesser of cost basis or fair market value. The new law does, however, provide for the possibility of deducting future income generated by a gift of a qualified patent or copyright on a sliding scale to the extent it exceeds the amount of the initial deduction. In some instances, a deduction may be allowed under this scale for up to 12 years. These provisions apply to gifts made after June 3, 2004. For additional information see Section 882 of the new law.

Changes in qualified appraisal rules

For many years, taxpayers have been required to obtain appraisals for gifts of appreciated assets valued at more than \$5,000 (\$10,000 for gifts of closely held securities). The new law extends this requirement to gifts by C Corporations. It also requires that the qualified appraisal be attached to returns where a deduction is claimed for donations of property valued at \$500,000 or more. Section 883 of the law deals with these changes, which are also effective for gifts completed after June 3, 2004.

Gifts of automobiles, boats, and airplanes

Under existing law, donors of automobiles, boats, and airplanes were allowed to take a deduction for what they determined to be the fair market value of the donated property unless it was worth more than \$5,000, in which case they were required to obtain a qualified appraisal. Beginning January 1, 2005, donors of such gifts must limit deductions to the amount actually received by the charitable recipient. Proof of the amount received must be included with the tax return on which the deduction is claimed. The treatment afforded such gifts is somewhat similar to provisions



Learn more about the new tax act and other important issues at "An Introduction to Planned Giving" in New York on January 24-25. See page 3 for more information and page 8 for a complete listing of Sharpe seminars in 2005.

that require charities to report the amount received for sales of property subject to qualified appraisal rules when property is sold within two years of the donation. The difference is that charities must report to the donor and the government the amount received from the sale of a donated automobile, boat, or airplane within 30 days of sale. See Section 884 of the new law for provisions covering contributions of vehicles.

Provisions not included

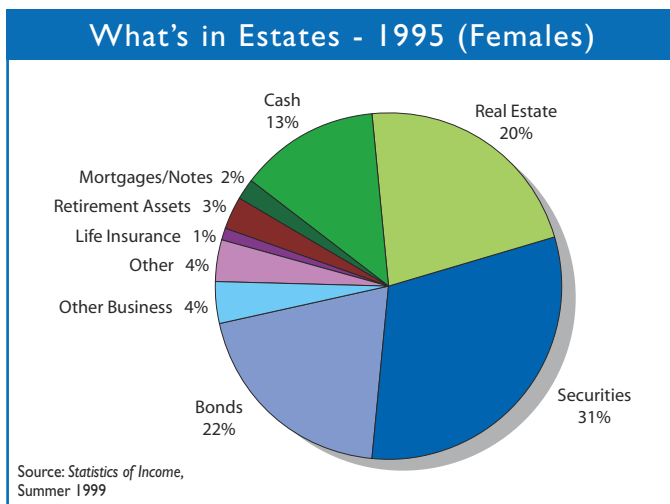
Of interest to charitable gift planners is the fact that, while Congress addressed charitable giving in this Act, it did not include provisions of the CARE Act that would have encouraged gifts of retirement plan assets and allowed nonitemizers to deduct a portion of their gifts.

Several versions of the CARE Act have been introduced in recent years, and all would allow taxpayers to make outright and deferred gifts of certain retirement fund assets to charity on a tax-favored basis. These provisions are expected to once again be included in bills that will be introduced in the 109th Congress next year. In the meantime, see page 2 of this issue of *Give & Take* for questions and answers about gifts from IRAs and other retirement plans and how they may be completed most advantageously while we await Congressional action on the CARE Act.

Learn more about the new tax act and other important issues at "An Introduction to Planned Giving" in Memphis on December 2-3 and in New York City on January 24-25, 2005. See page 3 for more information and page 8 for a complete listing of Sharpe seminars in 2005. [G&T](#)

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increased the threshold for estate tax liability from \$600,000 in 1995 to \$1 million in 2002. Consequently, the estates included in the 2002 figures represent individuals with higher net worth. Affluent persons are more often willing to tolerate risk by holding more of their wealth in the form of stocks later in life.



Additionally, the 2002 data is broken down differently than the data in the 1995 report. In the 2002 report, annuities were listed in a separate category and constituted 8.7% of the estates. In 1995, annuities were not reported separately. But if we consider annuities to be a relatively conservative, fixed-income investment closer in character to bonds than to stock, then summing annuities and bonds in 2002 gives us a figure of 22.8%, which is not far from the 22% in bond holdings reported for females in 1995.

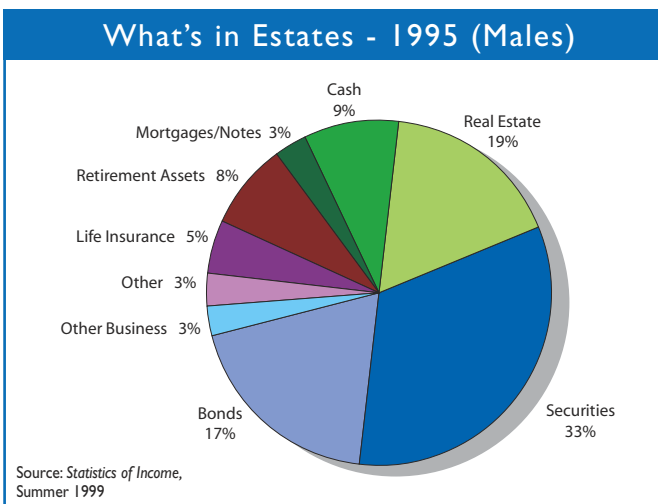
Although this data suggests bonds may make up a smaller portion of the assets held by wealthy older persons, giving bonds still may be a viable option for many donors. While interest payments from existing bonds have remained the same, the value of many long-term bonds has gone up during extended periods of lower prevailing interest rates. Some donors may thus wish to lock in today's value and possibly increase their yield through a life income arrangement while avoiding or delaying capital gains tax that might otherwise be due.

Real estate

The 2002 data breaks down real estate by value of residences (9.2% of the estates) and other real estate (7.8%), for a total of 17%. This is comparable to the figure of 19% to 20% for the value of real estate in 1995 estates. The fact that it is a little lower despite increased real property values in many parts of the country is again most likely because the 2002 data represents the estates of wealthier individuals. For many persons whose estates were within the lower threshold for federal filing in 1995, it is very likely that the percentage attributable to real

estate, especially the personal residence, was substantially higher than was the case for those with taxable estates at or above the higher filing threshold in 2002.

The value of principal residences and second homes has indeed risen for many people in many areas of the country, but as values rise dramatically fears that the



“bubble” might be about to burst begin to emerge. Consequently, gifts of marketable, high quality real estate, either on an outright basis or with a retained life estate, may increasingly represent a viable option for older donors with substantial other assets who wish to obtain maximum value from real estate they believe may have peaked in value for the foreseeable future.

Cash and implications for development efforts

As stated at the outset, cash makes up a relatively small portion of estate value. In both 1995 and 2002, cash accounted for between 9 and 13% of taxable estate value.

The implications for those managing development efforts are clear. Most people who accumulate substantial amounts of property during their lifetimes do not leave much of it sitting in the form of cash in checking accounts earning little or no interest and being eroded by inflation.

Despite this simple truth, many nonprofits devote the majority of their attention to asking their supporters for gifts of cash. As a result, the IRS data makes it clear that when working with persons of substantial means, more than 87% of the value that might potentially be given to support worthy programs may be ‘left on the table.’ Even the most basic gift planning marketing effort can offer viable alternatives for many donors.

In conclusion, it is important to point out that the data for both 1995 and 2002 are drawn from a very small minority of estates—those subject to filing an estate tax return, whether or not tax was ultimately

Planning Matters...Continued from page 2

Question: *What about persons over 70½ who are forced to take retirement plan withdrawals they do not need?*

Answer: This could be an ideal situation for a charitable gift. If they itemize, charitable gifts of these funds and the resulting offsetting charitable deduction allow them to direct the full use of those funds to charitable purposes without any net additional tax.

Question: *What if the donor is concerned about the size of the gift or bumping into the 50% AGI limitation?*

Answer: This concern might be addressed by breaking the gift into installments. For example, assume a retired couple with a \$100,000 AGI would like to make a \$200,000 gift from an IRA with a balance of over \$2 million. If they withdrew \$200,000 to make the gift, they would not be able to fully deduct it. Their new AGI would be increased to \$300,000, but their deduction would be limited to \$150,000. However, if they broke the withdrawal and subsequent gift into two equal installments over two tax years, the gift would be fully deductible. This could be as simple as making one gift in December of 2004 and the other gift in January of 2005.

Question: *I have a prospect for a life income gift. Do you have any suggestions?*

Answer: The charitable deduction associated with a charitable remainder trust, pooled income fund, or charitable gift annuity funded with a retirement plan withdrawal will result in only a partially offsetting deduction. As a result, the donor may want to use additional assets to increase the size of the split interest gift until an offset is achieved. Or a donor that is funding a life income gift with cash, stock, or other appropriate assets may choose to use that charitable deduction to shelter required withdrawals

from his or her retirement plan. Under the CARE Act, no tax would be due on assets used to fund life income gifts, but it should be noted that the CARE Act would not allow income from trusts and annuities funded with IRA assets to be paid to those other than the taxpayer or a spouse, and all income received from gift annuities and charitable trusts would be subject to ordinary income taxes, so there may be future income tax advantages to funding such gifts with other assets.

Question: *Can you summarize the issues associated with gifts from retirement plans today?*

Answer: The best prospects for these gifts will be persons over 59½ with significant retirement plan balances. Remember that deductions are limited to 50% of AGI for gifts of cash, so consider the advantages of breaking the gift into installments where larger gifts are concerned. In most instances, the 3% limitation on itemized deductions for high-income taxpayers should not be a serious issue. Don't forget to promote beneficiary designations as a way to keep these assets from ever being subject to an income or estate tax.

With trillions of dollars at stake, it may be unwise to wait for pending or proposed legislation to make gifts of retirement plan assets more attractive. Remember the CARE Act applies only to IRA assets and not to funds in 401(k) plans or other retirement planning options. In the final analysis, the CARE Act should result in additional gifts by removing certain disincentives and making it easier to plan gifts of IRA funds. But significant tax planning opportunities already exist under current law, and charities that fail to promote appropriate gifts of these assets may be missing an important "pocket" from which donors can make meaningful gifts today. [G&T](#)

Editor's note: Many of the concepts and scenarios discussed in this article are drawn from Sharpe seminar presentations and publications such as "Giving Through Retirement Plans."

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paid. For 2002, 98,359 filed an estate tax return and of those only 44,407 owed federal estate tax. These figures are compared to the more than 2.4 million deaths in the United States in 2002.

While little information exists for estates not required to file a return, it is reasonable to assume that the less wealthy would also tend to hold a minority of their property in cash. It is likely that the share devoted to real estate would be somewhat higher and the portion held in securities would be lower than in the estates of the more affluent group of filers.

Give & Take will continue to monitor IRS and other data and follow up with future reports. [G&T](#)

Footnotes

“Thanks for Giving” is not just for Thanksgiving

While the period from Thanksgiving to the end of the year may be a traditional time for reflection and giving thanks, successful gift planners know that they should show their appreciation for their donors all year long. Let Sharpe’s “Thanks for Giving” brochure help you thank your donors for their current gifts and inform them about other ways of giving they may want to consider.

“Thanks for Giving” is available in two unique cover designs for a general audience and one specially designed for educational institutions. Each contains a detachable response card that can be personalized for your organization or institution. The response device allows donors to request more information about giving topics mentioned in the brochure that pique their interest.

Consider including “Thanks for Giving” in your gift acknowledgments or receipts year round. The brochure lets donors know that you appreciate their gifts and want them to be aware of other giving opportunities that are available to them in the future.

For additional information or to place your order for “Thanks for Giving,” call 1-800-238-3253 or visit us at www.sharpenet.com.

Time to restock your gift planning library

Planning for the new year means setting goals and ensuring that you have what you need to achieve them. That includes making sure that your library of gift planning material is up to date and complete.

Having immediate access to a variety of gift planning publications can save valuable time throughout the year. Whether you’re faced with an unexpected donor visit or a hurried request for more information on a particular topic, being able to hand prospective donors and/or their advisors exactly the material that is needed *when they need it* can make the difference between good intentions and a completed gift. A supply of well-written and accurate publications can also serve as handy reference materials for gift planners who are new to the job or who need quick and accurate information about gift plans outside of their realm of expertise.

Make sure you and your staff are able to supply the information donors need before deciding how to make their gifts most effectively. Call 1-800-238-3253 for details, and visit www.sharpenet.com/pubs to view our full line of gift planning materials.

Flexible billing options

Sharpe’s flexible billing options allow you to plan to maximize your budget’s potential. If your fiscal year ends with the calendar year, consider using excess budget funds that might otherwise be lost to replenish publications or provide the resources to fund training opportunities for the coming year. Or if funds are scarce now, you can begin to implement plans using Sharpe services now but postpone billing until the next fiscal year. Sharpe’s flexible billing methods allow you to:

- divide payments over two budget years.
- pay early if funds are available but you wish to delay delivery of services for a convenient period of time.
- begin production processes or attend training sessions now and postpone billing until funds become available in the new fiscal year.

To learn more, call a Sharpe representative at 1-800-238-3253. [G&T](#)

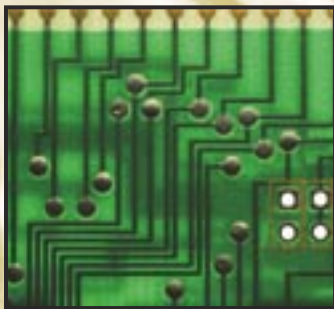


News and ideas about The Sharpe Group’s services.





THE SHARPE SEMINAR SERIES



Training Schedule 2005

January

An Introduction to Planned Giving	New York	Jan. 24-25
Managing Planned Giving Relationships	New York	Jan. 26-27

February

Strategic Gift Planning	Memphis	Feb. 7-8
Major Gift Planning	Cleveland	Feb. 17-18

March

Strategic Gift Planning	Chicago/Oak Brook	Mar. 7-8
An Introduction to Planned Giving	Washington, D.C.	Mar. 21-22
Managing Planned Giving Relationships	Washington, D.C.	Mar. 23-24

April

An Introduction to Planned Giving	Chicago/Oak Brook	April 11-12
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May

Major Gift Planning	Tampa/St. Petersburg	May 23-24
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June

An Introduction to Planned Giving	Boston	June 27-28
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August

An Introduction to Planned Giving	New York	Aug. 29-30
Managing Planned Giving Relationships	New York	Aug. 31-Sept. 1

September

Major Gift Planning	New York	Sept. 8-9
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November

Major Gift Planning	Washington, D.C.	Nov. 7-8
An Introduction to Planned Giving	Tampa/St. Petersburg	Nov. 14-15

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