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Give & Take

News and Ideas for Development Executives of Nonprofit Organizations

The Effect of Estate Taxes on Charitable Giving

by Barlow T. Mann

Recently, a number of studies have been released concerning the potential impact on charitable giving resulting from the impending estate tax cuts and repeal. How will your planned giving program be affected?

Over the past several years, reports had predicted reductions of between 12% and 37% in gifts from estates, depending on economic assumptions. Based on the most recent *Giving USA* estimate of $21.6 billion in charitable bequests for 2003, this shortfall could amount to between $2.6 and $8.0 billion in lost gift revenue.

CBO predicts reduction

Two new studies from the Congressional Budget Office provide updated predictions that are likely to cause spirited debates among those interested in charitable gift planning. One report examines the overall impact of the pending changes on charitable giving. That report, *The Estate Tax and Charitable Giving*, concluded that the repeal of the estate tax would lead to a 6% to 12% reduction in *total* charitable giving. This could result in a $12 to $24 billion reduction in gifts from individuals and estates, based on the latest *Giving USA* figures. The report predicts a much smaller impact if the estate tax exemption equivalent were to be frozen at the $2 to $3.5 million level. The effect of that more limited increase in estate tax exemption was predicted to cause less than a 3% reduction in overall charitable giving.

The second study released by the Congressional Budget Office, *Charitable Bequests and the Repeal of the Estate Tax*, examines previous predictions of a very broad potential range in the decline of charitable bequests. The paper concludes that, with some adjustments to the methodologies used, the earlier reports were actually much closer in their conclusions. The new study concluded that the reductions were more likely to fall within a range of 20% to 30%. Again, using the latest *Giving USA* figures, this would put the potential reduction in bequests in the range of $4.3 to $6.5 billion.

Make plans now to join us for training in Tampa. See page 3 for details.

Committee report suggests upswing

Meanwhile the Joint Economic Committee of Congress reports that charitable bequests reached a record high following the initial reductions in estate taxes. Their analysis of the data found that charitable bequests actually increased 25% over the past five years in inflation-adjusted dollars. This trend line would appear to contradict the position of the CBO's reports. (See chart on page 5.)

Effect of the Economic Recovery Act

The conflict between these positions is not one that is likely to be resolved anytime soon. It may be instructive, however, to examine the general trend line of charitable bequests in the decades since the enactment of the Economic Recovery Act of 1981. This law unified gift and estate taxes, phased in the original $600,000 exemption equivalent, and provided for an unlimited

Continued on page 5

Inside:

Gift annuities vs. CRATs

Planning Matters

by Jonathan G. Tidd

An 80-year old donor informs you that she is considering a gift to your organization through either an 8% gift annuity or an 8% charitable remainder annuity trust (CRAT). Which gift plan is the better option?

Offhand it is likely that you would pick the gift annuity, but there are a number of considerations that should determine your answer—some practical, some legal, some ethical.

Practical considerations

A CRAT, of course, requires a trustee. So the first question is this: Does a suitable potential trustee exist given the amount the donor wants to use to establish the gift plan? For $10,000, probably not. For $50,000 to $100,000, maybe, depending on (for example) whether the donee organization is ready, willing, and able to take on trusteeship of a CRAT of that (or any) size. For amounts in the $100,000 to $250,000 range, a bank or trust company may be a possible trustee, depending on locale and the donor's or donee's relationship with such an institution.

The flip side of the question arises if the donor wants to use a large amount of assets (e.g., $1 million) to establish the gift plan. For some charities, this would be too large a bite to swallow in a gift annuity transaction, in which case the CRAT is the only practical plan.

Legal and financial considerations

There are a number of considerations under this heading. Here is a partial list:

- Is the donee organization registered or otherwise able to do gift annuity business in the state where the donor resides?
- Given investment and expense considerations, which plan would be more likely to play out better for the donee?
- Given cost and tax considerations, which plan would be more likely to play out better for the donor? (It is here that one would generally favor the gift annuity.)
- What kind of asset does the donor want to use to establish the gift plan? For example, if the asset is valuable tangible personal property (e.g., a musical instrument) the donee wants for carrying out its exempt purposes, a gift annuity transaction would satisfy the related use rule; a CRAT wouldn't.
- On the other hand, if the donor wants to use tax-exempt bonds, a CRAT (subject to various caveats and cautions) may be the gift plan of choice, although the analysis here can run deep.

The list could go on and on, and it can be a complex matter to decide which gift plan to implement.

Ethical considerations

Deciding which is the better gift plan—the gift annuity or the CRAT—can sometimes put the development officer in an ethically difficult position.

For example, suppose the development officer determines that, on balance, the gift annuity is better for our 80-year-old donor because:

- the charitable deduction will be the same either way
- the payments from the gift annuity are projected to be more favorably taxed
- the cost to the donor of setting up the gift annuity will be far less
- payments to the donor will be backed by all of the assets of the donee organization in the case of a gift annuity
- the gift annuity is easier for the donor to understand.

Now suppose the donor's attorney or financial advisor favors the CRAT out of what the development officer strongly suspects is self-interest. Or suppose the development officer's CEO would go along with the gift annuity, as he has done in other similar situations, except he feels the donor "looks a little too healthy" and he therefore dislikes the gift annuity (which has already been proposed to the donor) because of the financial risk to the donee organization.

What should the development officer do? That's the subject of another discussion dealing with ethical problems. Stay tuned. G&T

Give & Take:

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SHARPE GROUP

Sharpe Seminar Series

Featured Seminar: Planned Giving... When That's Not All You Do

In addition to an informed development staff and a knowledgeable and supportive CEO, it is vital that board members, program and support staff, and financial officers be aware of the tremendous opportunities offered by the unprecedented wealth transfer that is beginning in America today.

This popular one-day seminar is designed to broaden understanding of the gift planning process within your organization by offering accessible training to a wider range of staff and volunteers who would like to gain a useful perspective on the gift planning process.

Join your colleagues for a day-long seminar for those whose responsibilities include the need to make donors aware of the most beneficial charitable gift planning options in today's environment. This seminar was specially created for persons who are not primarily responsible for planned gift development but need a working knowledge of this area of fund development. Past attendees have included directors of development, annual fund and membership directors, major gift officers, campaign volunteers, and others.

The program is designed to help create the teamwork that is increasingly critical for success in helping donors make their gifts in the most effective ways. Beginning with an overview of today's funding environment, knowledgeable professionals will explore the types of assets donors most often use to fund larger current and deferred gifts with special emphasis on planning alternatives that serve to produce the most usable funds in the shortest period of time. Realistic case studies that illustrate how donors can make gifts that serve multiple needs for themselves and their charitable interests are included.

A number of ways to assure active communication of charitable gift planning opportunities through personal contact, group presentations, and broad-based marketing methods that can easily be incorporated into other fund development efforts will also be presented. G&T

On the Agenda for Planned Giving... When That's Not All You Do

- Overview of Fund Development in Today's Environment
- Introduction to Gift Planning Techniques
- Understanding Donors' Assets
- Practical Gift Planning
- Marketing Planned Gifts

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

Coming in 2005

Watch for Sharpe training dates in the following cities:

New York
Washington, D.C.
Chicago
Tampa
Boston
and others...

Upcoming Seminar Training Dates

Planned Giving...When That's Not All You Do
Washington, D.C.
September 27 NEW

An Introduction to Planned Giving
Washington, D.C.
October 21-22 NEW
Tampa
November 8-9
Memphis
December 2-3 NEW

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@sharpenet.com

Are You Ready for "My Generation"?

In the past, many planned giving marketing efforts exposed their entire constituency to the same message. In recent years, however, a growing number of program managers are better segmenting their constituency to target the right people with the right messages at the right times in their lives.

Programs with many thousands of donors and a larger staff now often find it more economical and productive to target their planned giving marketing materials to specific subsets of the larger universe.

Grouped by time frames

Consider the ever-changing pool of 65-year-old planned giving prospects. Every year a new group of persons reaches this demographic milestone. Grouping those persons born within various time frames allows the creation of "generations," which are bound together by certain common experiences. These different generations are actually made up of many different sub-groups. However, the threads of commonly shared experiences help to collectively shape each generation.

This, in turn, can affect how they may react to your marketing activities. To better understand this concept and its application, consider the following groups of newly minted 65-year-olds at various intervals: In 1955, 65-year-olds were born in 1890; in 1975 they were born in 1910; in 1995 they were born in 1930; and next year's group was born in 1940.

Recognizing common denominators

Let's consider some of the clusters in more detail. One cluster, "the oldest old," would include those persons age 80 and older who were born before 1924. While relatively small in number, this group represents the first "great generation" of planned giving prospects. It is not uncommon for members of this group to have memories of relatives who fought in the Civil War and whose entire lives paralleled the explosion of the technical innovations, from early flight to landings on Mars. Nevertheless, they are still more likely to relate to a pocketknife than a pocket calculator.

World Wars were the primary events that changed their lives and the world in which they lived. Over the past several decades, this older group has been a source for most of the planned gifts received by America's charities. IRS studies indicate that, today, more maturing gifts still come from people in this generation than from all those under age 70 who die and leave gifts to charity. They are to be commended and treated with great respect.

An active generation

The second group we will look at were born between 1925 and 1942. Members of this generation were children during the "Roaring Twenties," the Great Depression, or WWII. The stock market crashed in 1929 and the Great Depression continued through the 1930s. Many in this group saw farms and businesses foreclosed, people out of work, soup lines, bank closings, etc.

This group composes the major segment of most planned giving marketing efforts today. They range in age from 62 to 79. As a whole they tend to be healthier and more active than the first generation we discussed. However, a growing number are experiencing the impact of aging. Many worked and accumulated assets during the period of unparalleled economic expansion in post-World War II America.

They accumulated more wealth than any generation before them. However, note that most of them are retired and are living on incomes derived from what may be increasingly conservative investment strategies that have experienced reduced returns the past few years.

As children during the Depression, they were less likely to be directly aware of, or affected in the same fashion by, the fiscal struggles of that time as was the previous generation.

Movies and newsreels brought the world to their towns. The size of this generation is much smaller than the previous group because birth rates dipped between the onset of the Depression and the end of World War II. They are concerned about their future retirement and health care needs.

Because this group is smaller than the prior generation, they are sometimes referred to as the "silent generation."

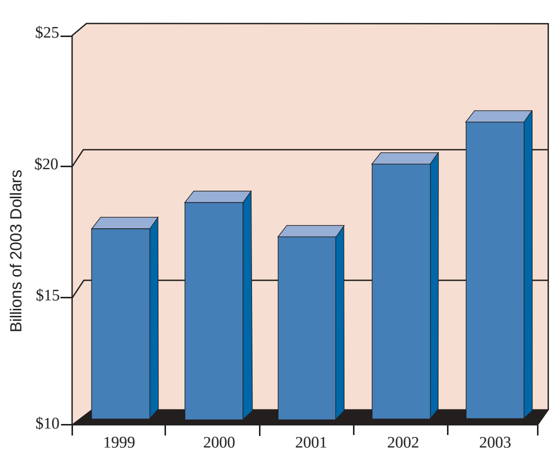
The baby boomers

Then we have the "baby boomers." Every seven and a half seconds, another one of this group turns 50, and estate planning is joining financial planning as a hot topic of discussion for them. Generally in their peak earning years, some have fallen victim to corporate downsizing, and the leading edge of this group is beginning to consider retirement. Larger than any previous generation, baby boomers are likely to redefine retirement and expect the world to change to meet their needs. They are also likely to respond differently than the "greatest" or "silent" generations before them.

Continued on page 6

The Effect of Estate Taxes...*Continued from page 1*

Charitable Bequests Reach Record High Following Reduction in Estate Taxes



Source: *Joint Economic Committee*

marital deduction. The net effect of these changes was to exempt 96% of estates from even having to file an estate tax return. At the time there were dire predictions about the possible impact of these changes on future charitable gifts from estates. Even so, charitable bequests generally continued to grow over the period examined in the chart below.

Historical Bequest Trends

Bequest Giving Data
(in billions of current dollars)

1983	$3.88	1994	$10.01
1984	4.04	1995	10.73
1985	4.77	1996	11.48
1986	5.70	1997	12.63
1987	6.58	1998	13.62
1988	6.57	1999	15.61
1989	6.97	2000	17.86
1990	7.64	2001	17.74
1991	7.78	2002	19.15
1992	8.15	2003	21.60
1993	8.54	Source: *Giving USA 2004*	

During this period the largest estates continued to be taxable, and many of them also enjoyed the benefit of a charitable deduction. However, it should be noted that the charitable deduction only reduces the cost of the charitable gift. Unlike a tax credit, which would offset the tax levy dollar for dollar, a deduction only "saves" the amount of the tax. Thus family or other heirs will receive more if there were no charitable gift at all. For example, this year the highest estate tax is 48% and therefore the after-tax cost of the gift is 52%. Thus a $1 million charitable bequest would still deprive heirs of $520,000.

The overall effect

In theory, the elimination of the estate tax may leave more for both the decedent's non-charitable and charitable beneficiaries.

Think of it this way: If you and your sibling were splitting a pie as an afternoon snack, your pieces would be larger than if you waited for your "Uncle Sam" from Washington to drop by and take a piece.

Most professionals would agree that tax incentives encourage certain activities. While credits may be better than deductions, all tax benefits have a role in influencing the behavior of individuals. There can be little doubt that some charitable bequests will be affected by a reduction or a repeal of the estate tax.

It is also clear that more assets will be available as the estate tax is reduced or eliminated, which in turn will leave larger slices of pie for both charitable and non-charitable beneficiaries.

In the final analysis, one must determine if the net effect of these contradictions will result in reductions or slower growth in charitable giving. If the overall economic pie continues to grow, the charitable slice will grow. If the economy suffers a sustained setback, people will continue to give but they will have less to give.

Astute gift planners will also note that even a 20% drop in charitable bequests would only put the annual dollar volume back to the 2001 level. As tax incentives are reduced or eliminated, it may be wise to focus on other donor motivations and seek to maintain relationships with those older individuals who believe in your organization and the work that it does. G&T

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

My Generation*...Continued from page 4*

Generation-based marketing

In applying the concept of generation-based marketing to the world of planned giving, some lessons may be borrowed from Madison Avenue. However, each lesson should be implemented carefully and with sensitivity. To be more effective in communication efforts, try to understand those events that helped shape and define a particular generation and apply them within the context of your mission.

For example, in a college setting, consider studying the yearbooks for the time period of the classes with whom you are communicating for photographs and references to use in marketing materials.

In a hospital setting, if you were previously known as the "Crippled Children's Hospital," an institution that dealt primarily with polio or other specific medical concerns, recognize that many of your older donors and auxiliary members may still identify to a degree with your former mission.

For a cause-related organization you may wish to feature quotations from or other references to a well-known leader from past years with whom your donors may more readily identify than with current leadership.

The goal is not to be misleading or manipulative in your communications; it is to make references to which your constituents of various ages can more easily relate. Acknowledging a former mission and linking today's current mission to that former mission may be an effective way to bridge "generation gaps" that might otherwise hamper the effectiveness of your communication efforts.

Matching media with messages

Matching the audience to the appropriate media will grow in importance over time. For the foreseeable future, the vast majority of planned giving prospects will continue to respond to print media. After all, these were generations that received handwritten letters, and they continue to prefer their communications in print.

More modern media—such as the telephone, television, radio, and Internet—can be used to reach smaller numbers of select groups.

Consider generation-based marketing as a valuable concept to assist you in reaching the right people at the right times when they are considering various gifts to support your organization. By more carefully matching your message to the intended recipient, the likelihood of a favorable reception is greatly increased. G&T

10 Years Ago in *Give & Take*

Generational marketing has long been of concern to gift planning professionals. The following is reprinted from the February 1994 issue of Give & Take.

Stymied by the 'Sandwich' Generation?

The "sandwich" generation—people who are now in their fifties and early sixties—have several competing goals that their parents probably didn't have to deal with at the same point in life:

- They are putting their children through college
- They are supporting their parents in old age
- They are planning for their own retirement, which will occur in only a few years.

Sandwiched between financial concerns as they are, how can these people make gifts of any size to your institution?

Offer a choice

Knowledgeable gift planning executives can offer such persons several alternatives. Not only must gift planners be familiar with gift plans, but they must also know the problems each plan can help solve....

Before you can help donors, you will need to know the major gift plans and their workings. Thereafter, your work concentrates on applying those plans to real-life situations donors face.

When they see how to arrange a gift while also helping support loved ones and minimizing taxes, motivated donors find in gift planning a solution to problems that may have been "sandwiching" them for years. G&T

Footnotes

"A Guide to Giving in 2004"

As the year-end season approaches, you may wish to remind your donors of the many benefits they can receive by making gifts before December 31.

If so, consider Sharpe's booklet "A Guide to Giving in 2004." Like all Sharpe publications, this booklet has been updated to reflect recent tax law changes. The booklet features helpful examples that show how donors can best give various types of property to maximize tax and other benefits. It also features an introduction to popular planned giving vehicles. From immediate gifts of cash or securities to deferred and split interest gifts, this booklet helps donors assess their options to choose a gift that will be mutually beneficial. For a copy of this booklet, call 1-800-238-3253 or see www.sharpenet.com/aguide.

Other options for year-end

This year Sharpe offers three year-end brochures. Designed to be informative but not overwhelming during the busy year-end season, these brochures can be a critical part of your organization's fund-raising efforts this year.

"Giving at Year-End," offered in two seasonal designs, illustrates the benefits of various types of gifts, including gifts of cash and securities as well as gifts of retirement plans and life insurance.

"Giving Thanks at Year-End" is especially appropriate for those organizations that wish to emphasize the stewardship opportunities that a year-end gift can offer.

"Giving Before December 31" is designed to be sent closer to the end of the year to remind your donors of the crucial tax deadline.

All Sharpe year-end brochures include a helpful chart outlining the advantages of various gifts and can easily be personalized with your institution's name and logo on the front cover.

The time to plan for the busy year-end season is now. Call 1-800-238-3253 to speak to a Sharpe representative about how Sharpe's year-end brochures can be the centerpiece of your mailings this fall.

More information is also available on our Web site at www.sharpenet.com/yearend.

Don't delay

For years, Sharpe's numerous billing options have allowed fundraisers the flexibility they need to make the most of their fiscal years.

Contact a Sharpe representative at 1-800-238-3253 to learn how you can:

- Pay for next year's mailings, including year-end brochures, out of this year's budget.
- Postpone billing of services you order now until next year's funds become available.
- Split payments over two fiscal years.

These flexible billing options apply to a range of Sharpe services. Call today to learn more about how Sharpe can help you make a smooth transition to the new year and achieve your goals both this year and next.

We are happy to help you meet your goals this year-end. Call 1-800-238-3253 to speak to a Sharpe representative today. G&T

News and ideas about The Sharpe Group's services.

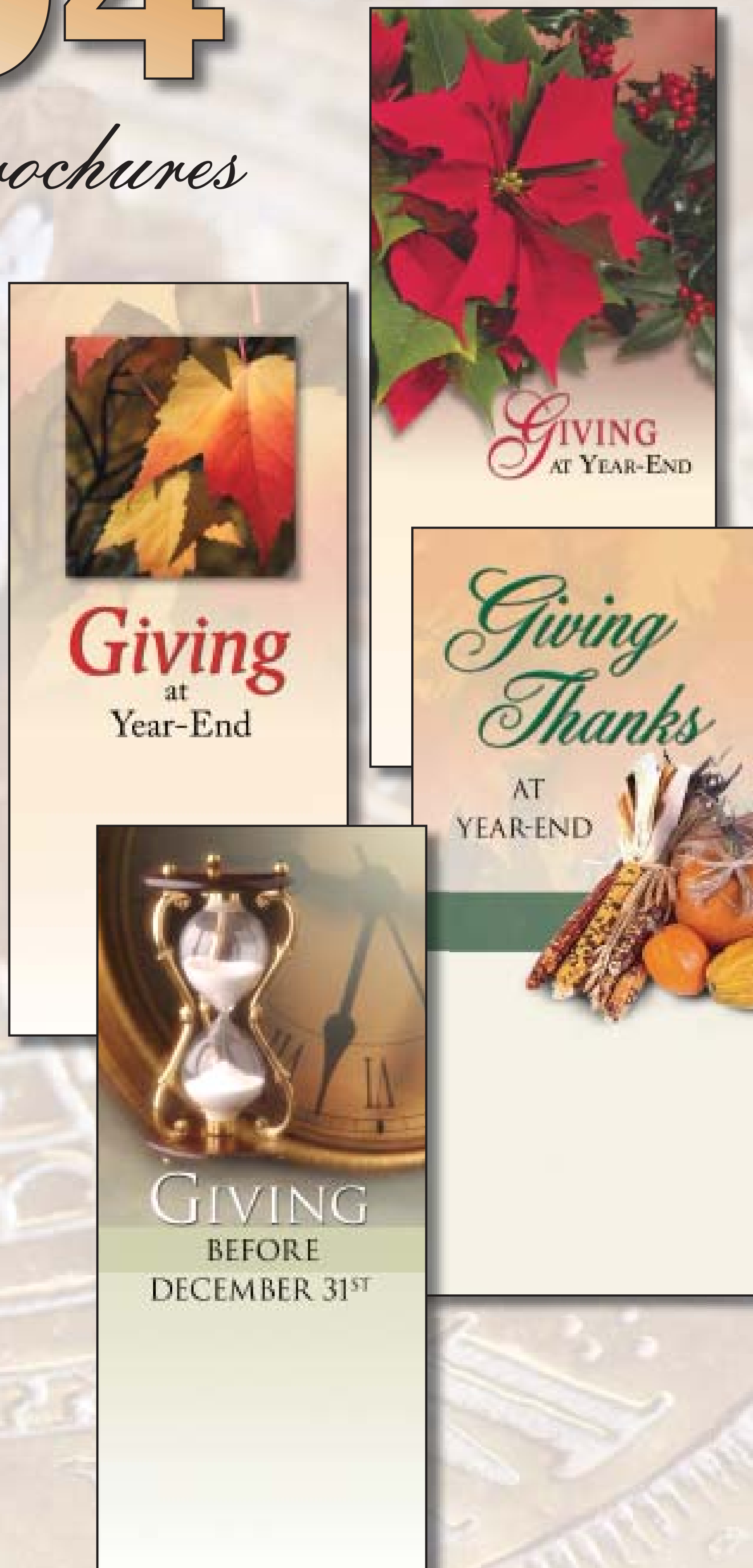
2004

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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