

# Give & Take™

News and Ideas for Development Executives of Nonprofit Organizations

## Appreciating Gifts of Securities

by Barlow T. Mann

After a dip last summer, the stock market rebounded in the fall and has reached record highs in the new year. As a result, many donors may feel more confident in the state of the economy and in their own financial circumstances. Indeed, net household wealth reached a record level in 2006, approaching \$54 trillion. 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 might be gathered by looking at the past.

### *The Roaring '90s*

In the mid-1990s, investment markets were growing rapidly 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 individuals 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.

### *A correction and recovery*

Despite a number of overvalued stocks, the 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



Photo credit: Chicago Convention & Tourism Bureau

*Sharpe's "Major Gift Planning" seminar comes to the Chicago area in March. See page 3 for details.*

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 in 2003. Soon bequest receipts began to show slower growth or declines as well in large part due to lower investment asset values weighing on the size of residuary estates.

Last fall, the Dow and other stock indexes began trading at the highest level seen in years and soon may be reaching new highs in addition to the Dow trading above the 12,500 level in January 2007. In this environment, many charitable organizations may see renewed interest from donors in gifts funded with appreciated securities. Unfortunately, some fund-raising executives, particularly

### Inside:

- The latest news on IRA gifts p.2
- Tried and true gift planning advice p.4

*Continued on page 5*



News on IRA gifts since the PPA.

## Survey Reveals IRA Gift Data

The National Committee on Planned Giving (NCPG) recently released the findings of a survey that asked about IRA distributions to charities as a result of the Pension Protection Act of 2006. As of January 10, 2007, NCPG had received information regarding 1,163 IRA gifts.

### Value of IRA gifts

According to the survey, the value of IRA distributions as of January 10 totaled more than \$24 million. While the median distribution is \$5,000 and the average contribution was \$20,964, the most common distribution amount was \$100,000, with 109 out of 1,163 reporting gifts of this size. See the following chart for the breakdown of specific dollar values.

Key Findings	
All respondents (1163)	
Total dollar value of gifts reported:	\$24,381,526
Median distribution:	\$5,000
Average distribution:	\$20,964
Most common distribution (109 out of 1163)	\$100,000
Distributions of \$1,000 or less	24%
Distributions of \$1,001 to 5,000	27%
Distributions of \$5,001 to 10,000	13%
Distributions of \$10,001 to 25,000	13%
Distributions of \$25,001 to 50,000	10%
Distributions \$50,001 to 99,999	4%
Distributions of \$100,000	9%

### Profile of respondents

The majority of survey respondents came from public universities (30.4%), while 21.1% of respondents were from private universities and 11.7% from small colleges. Those identifying themselves as Religious Organizations and those in the "Other" category made up 7.5% and 7.8% of respondents, respectively.

### Reason for the gift

The NCPG survey asks why the donor decided to make an IRA distribu-

tion. Over 70% of respondents indicated that the donor's main motivation was a desire to benefit the selected charity. Twenty-three percent did not know why the donor completed such a gift, and 21.2% reported that the donor did not need or want the required minimum distribution from the IRA.

Donor's reason for making a distribution to charity (if known by the survey respondent)	
Desire to benefit charity	71.6%
Donor does not itemize tax deductions; can benefit from tax-free IRA distribution to charity.	2.8%
Donor wanted to make a gift in excess of 50% AGI.	1.6%
Donor did not need or want required minimum distribution from IRA.	21.2%
Don't know.	23.0%
Other	6.6%

### 2007 may see more IRA gifts

Because the IRA gift incentives did not become law until the late summer and the IRS has only recently issued detailed instructions on how to handle such gifts, many donors, their IRA administrators, and nonprofits did not have time to complete IRA gifts in 2006. The provision encouraging IRA gifts continues in effect for 2007 and many observers expect more gifts of this type in 2007 than 2006. Many will make their plans earlier in the year so it is important to inform donors about such gifts as soon as possible to receive a maximum share of the \$100,000 each donor may give this way.

While these survey results are based on the 1,163 responses it has received so far from various nonprofit organizations, the NCPG encourages all charitable groups to continue using this survey to report their IRA gifts as well. You can access the survey online at <https://websurveyor.net/wsb.dll/24399/hr4survey.htm>.

## Give & Take:

A client service publication published monthly since 1968 by The Sharpe Group, 6410 Poplar Avenue, Suite 700, Memphis, TN 38119. (901) 680-5300. Fax (901) 761-4268. E-mail [info@sharpenet.com](mailto:info@sharpenet.com) or through our Web site at <http://www.sharpenet.com>.

The publisher of *Give & Take* is not engaged in rendering legal or tax advisory service. For advice and assistance in specific cases, the services of your own counsel should be obtained.

Articles in *Give & Take* may generally be reprinted for distribution to board members and staff of nonprofit institutions and other non-donor groups. Proper credit must be given. Call for details.

© 2007 RFSCO, Inc.

SHARPE  GROUP™

Editor:  
Elizabeth H. Smithers

Design:  
Amy Criswell

# Sharpe Seminar Series

## Featured Seminar: Major Gift Planning

One of the most popular seminars in the Sharpe seminar series, Major Gift Planning will be offered in Washington, D.C., Chicago, and New York in the coming months.

In two concentrated, information-packed days, presenters Robert F. Sharpe, Jr., and Jonathan G. Tidd, Esq., address issues of vital importance to those charged with structuring major gifts to their organizations. By linking

their knowledge and over 40 years of combined experience, Sharpe and Tidd lead participants who possess a basic understanding of gift planning tools through a comprehensive training experience designed to help them best utilize their skills in today's environment.

Registration is limited to allow for more interaction among participants and instructors. **G&T**



## On the Agenda for 'Major Gift Planning'

### Day One

- The Role of Effective Gift Planning in a Comprehensive Fund Development Program
- An Overview of Current and Deferred Gift Planning Techniques
- The Role of Tax and Other Financial Considerations in Planning Major Gifts
- Understanding the Gift Potential in Properties Donors Own
- Maximizing Income From Bequests, Life Insurance, and Retirement Plans
- Integrating Charitable Gifts Into the Overall Estate Plan

### Day Two

- Examining the Role of Deferred Gifts in Capital Campaigns
- Case Studies: How Gift Plans Can Help Donors Meet Personal Planning Obligations
- Deferred Gifts With Near-Term Benefits
- Overview of Regulatory Issues in Major Gift Development
- A Targeted Approach to Communicating Benefits of Gift Planning to Donors
- How to Work Successfully With Donors' Professional Advisors

See [www.sharpenet.com/seminars](http://www.sharpenet.com/seminars) for a complete agenda and dates for this and other Sharpe seminars.

## What Attendees Are Saying About 'Major Gift Planning'

*"Much more intriguing than I would have ever imagined. I'll be back."*  
—Martha Sullivan, Tulane University, New Orleans, LA

*"I have been involved with many presentations both as a presenter and as an attendee. This is one of the best I have attended."*  
—Paul Seifert, St. Jude Children's Research Hospital, Memphis, TN

*"Your seminars are always so informative and your personal anecdotes help make complicated material very interesting. I always learn something new and your printed materials are an excellent resource."*  
—Diana Dilg, Memorial Sloan-Kettering Cancer Center, New York, NY

## Upcoming Seminar Training Dates

### An Introduction to Planned Giving

Chicago  
February 12-13

### Managing Planned Giving Relationships

Chicago  
February 14-15

### Major Gift Planning

Washington D.C.  
February 22-23

Chicago  
March 29-30

New York  
April 16-17

### Integrating Major and Planned Gifts

Washington D.C.  
April 23-24

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](http://www.sharpenet.com)  
E-mail: [seminars@sharpenet.com](mailto:seminars@sharpenet.com)

## 4 Back-to-Basics Tips for Success

The last several decades have brought tremendous changes and advances to our world. The typical automobile has more computer technology than the Lunar Landing Module, or the spacecraft that took it to the moon. Cell phones and PDAs, satellite TV, and the Internet have helped create a global village.

Still, it seems that the more things change the more things stay the same. This is particularly true in the area of planned and major gift development. Much may be gained by looking to the past as you consider your future plans for your gift development efforts. Consider the following as you set your priorities for the remainder of this year and beyond:

### 1. Non-tax motivations will continue to be recognized as the prime motivators for making large gifts.

We need to be familiar with federal and state tax law and how it affects the overall giving climate and attractiveness of specific gift methods. But we also need to remember tax changes come and go while people's deeper motivations for making gifts remain the same.

From a practical standpoint, nonprofits that base their marketing on universal motivations will not risk having their strategy outdated with each session of Congress. The tax benefits are the "icing"—not "the cake."

With greater realization of the primacy of donative intent, we will continue to see a shift from heavy emphasis on marketing of plans as tax-favored "investments" to the charitable gift planning approach where the emphasis is on gifts and how best to structure them for the maximum benefit to all concerned. This may be a subtle shift, but one we believe will be vital to continued success.

### 2. Gift planners will increasingly call on professional advisors to supplement their skills.

While technical specialists will continue to be required in large shops where there are appropriate economies of scale, in many cases staff members working in the area of charitable gift planning will increasingly require human relations/marketing skills rather than the ability to complete the details of complex gift arrangements.

An understanding of how gift methods work together to meet various donors' estate and financial priorities and the needs of the institution will be of great importance. After the outlines of a plan are in place, the services of increasingly knowledgeable

allied professionals in the fields of law, accounting, investments, and other fields will be required.

This division of labor has two advantages. First, the gift planning professional, skilled in communications necessary to help a donor explore his or her desires and emotions, may not be oriented toward the technical details.

Second, the donor is usually better served by more than one advisor. Any conflict of interest is eliminated when the financial development executive acts as facilitator of the gift planning process, not as the technician who completes documentation of the plan and advises on the tax consequences.

### 3. The roles of development staff members specializing in planned and major gift development will have to be integrated more than ever.

Those who are assigned to work closely with major donors will need to know when to call on a colleague who may know more about a gift option that may suit a particular donor. This will especially be true when working with an increasingly older, wealthy donor population. In some organizations and institutions, this interaction does not always come easily. Where successful interaction regularly occurs, it begins with a change in perception of top staff and volunteer leadership in the way the development process works most effectively. Where the perspective of leadership on the process is out of date, change must come quickly if their organization is to fully serve the best interests of their donors in today's complex environment.

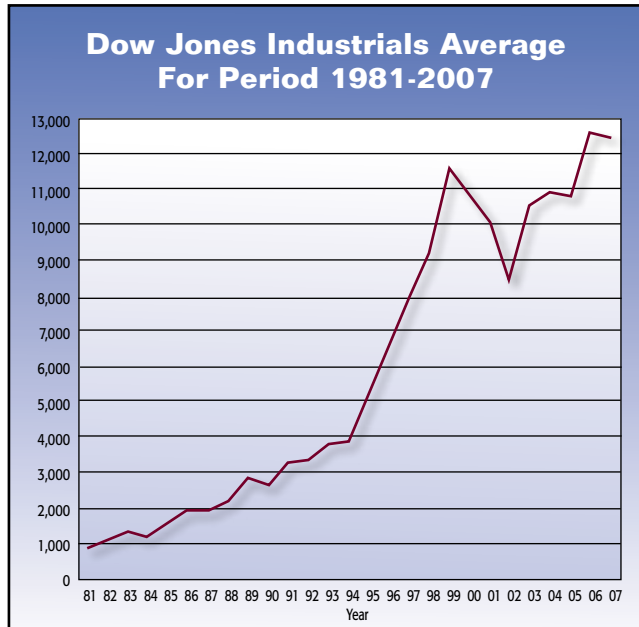
### 4. Wills and bequests and gifts via life insurance and retirement plans will continue to be recognized as a promising source of gifts via the estate.

Many marketing programs will go "back to basics," as charitable bequests and similar testamentary gifts appeal to the broadest number of donors. Bequest income from individuals continues to grow each year for many nonprofits. The organizations that are seeking it will receive it.

Bequest marketing also can open a dialogue with charitably motivated people who may benefit from other giving arrangements discovered through the charitable estate planning process. Bequest marketing efforts can also be an excellent way to help discover the most motivated persons among the ranks of younger donors.

# Gifts of Securities...Continued from page 1

those new to the field, may be “rusty” or completely unfamiliar with both basic and more advanced planning strategies utilizing securities.



## Why donors appreciate gifts of securities

The combined tax savings of the charitable deduction and avoidance of capital gains tax may attract donors to gifts of appreciated securities. Gifts of publicly-held stocks and bonds that have been held for more than a year (long-term) offer the greatest benefits.

Some have speculated that the lower income and capital gains tax rates brought about by 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 during the last period of record high market valuations, consider the situation of tax-payers planning gifts under the current rules. For them, 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 who 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. Under current tax rates given 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 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:

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

From an accounting standpoint, the cost of this \$11,000 gift is lower than a \$10,000 cash gift. Obviously, the exact savings will depend on the donor’s tax bracket, basis in the security, and other factors. State taxes can in some cases affect the after-tax cost of cash and property gifts as well. This example serves as an illustration of the attractiveness of gifts of appropriate appreciated assets as compared to cash. Our current environment may thus lead 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 can also be an attractive choice for funding a variety of deferred gifts such as gift annuities and charitable remainder trusts. While income tax deductions are based on a percentage of the full value of the assets contributed, capital gains tax on long-term appreciated property is partially avoided and/or delayed at the time of the gift. On the other hand, 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 rates as high as 35% on other sources of income.

Some planned giving donors who had previously 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. Those who already have charitable remainder unitrusts may want to add them or fund additional gift annuities as the case may be.

## Gifts of Securities...Continued from page 5



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.

With reduced estate taxes for most individuals, current tax and income planning may be increasingly important. For example, donors who 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 and capital gains tax savings as well.

A number of other planning strategies exist that help meet personal and philanthropic goals using gifts of appreciated assets, but charities must inform the donor and advisors about them or this opportunity may be lost. The Sharpe Gift Planning Matrix™ (at right) can be of assistance in identifying those potential donors.

Generally speaking, prospects for outright gifts of securities will tend to fall across the top of the Matrix, as such gifts are tied to wealth and not necessarily to the age of a donor. While most prospects for gift annuities and charitable remainder trusts for life will be found in the C1 and C2 boxes, younger persons of means may wish to fund a trust for a term-of-years or for the life of an older

	Younger -50	Middle-Aged 50-70	Older 70+
Wealthy	A1	B1	C1
Moderate Means	A2	B2	C2
Limited Means	A3	B3	C3

loved one. Charitable gift annuities for the life of the donor and/or spouse will primarily be funded with appreciated assets by those in the C1, C2, and C3 boxes. Gift annuities funded for persons other than the donor or spouse will not normally be funded with appreciated assets, as doing so would result in immediate realization of a portion of the capital gain.

Communicating the benefits of giving appreciated assets at this time will be a key component of successful programs. Consider providing your constituents information that explains the opportunities available to them through a gift of appreciated securities. [G&T](#)

## Tips for Success...Continued from page 4

### Remember the basics

With continued change on the horizon some gift planning executives will be tempted to try bold new initiatives while abandoning tried and true methodology. Past experience has shown that the most successful programs in times of change have been those that have stayed with basic approaches that have stood the test of time, while adjusting and evolving to meet the nuances of the current environment. Remember, for example, that the continued phase in of estate tax repeal will hold no change for the over 98% of persons who are currently planning gifts through their wills and other long-range plans. Don't forget what motivates these persons as we strive to put a positive "spin" on changes for the small percentage who may be affected.

Simply put, today as in the past, those who work for organizations that they believe in and focus their efforts on working with individuals who are also passionate about their organization's mission will continue to prosper despite the continual winds of change. [G&T](#)

## Footnotes

### *Continuing benefits of IRA gifts*

Most development professionals now know that the IRA gift benefits of the Pension Protection Act of 2006 continue through the end of 2007. But do your donors know that? Now is the ideal time to educate potential donors about completing IRA gifts before the close of this year.

Even if your organization did not have time to explain the IRA rollover benefits to their constituents over age 70½ in 2006, it's not too late to inform donors about the benefits that continue to apply to traditional and Roth IRA gifts in 2007. Consider providing the Sharpe brochure "The Charitable IRA" to those friends of your organization who can still benefit from the IRA rollover provisions of the PPA.

"The Charitable IRA" informs your donors that, if they are age 70½ or older, they may continue to make tax-free charitable gifts directly from their IRA until the end of this year. Many potential donors will be interested to learn that IRA gifts of up to \$100,000 offer such tax advantages.

Since the PPA was signed in late summer and therefore only in effect for less than six months in 2006, 2007 will likely see a marked increase in IRA rollover gifts as donors hasten to take advantage of the IRA tax benefits before they phase out at the close of the year. Many donors who may have wanted to participate by giving in 2006 may not have had enough time to complete their gifts last year, while others who did complete such gifts last year will also want to make similar gifts in 2007 while the PPA tax benefits are still in effect (see the article on page 2). Time is of the essence. By this fall, much of each donor's \$100,000 maximum gift may already be committed to organizations that get the word out early this year.

For more information about "The Charitable IRA" brochure or to place an order, call 1-800-238-3253.

### *Booklet of the Month: "Giving Securities"*


The Dow has reached record levels recently—surpassing the 12,500 mark (see the page 1 article in this issue of *Give & Take*). Many friends of your organization who own stocks may be benefiting from appreciating stock portfolios thanks to this market upswing. Do your donors understand the potential tax-saving benefits of funding their gifts with appreciated securities? Now may be an opportune time to remind them.

The Sharpe booklet "Giving Securities" offers in-depth information to donors and friends who may have both the means and the desire

to make a real difference in fundraising efforts but have not yet realized the potential contained in their current stock portfolios. "Giving Securities" explains to donors how their stock gifts to charitable organizations and institutions can lead to maximized tax benefits for themselves, especially when compared to similar gifts of cash.

This booklet takes donors through choosing the right asset to give, how to complete a gift of securities, and other special planning strategies. "Giving Securities"

also points out how these strategies can enhance the donor's own financial security while making a gift.

Consider providing "Giving Securities" to friends of your organization during this record high point in the stock market. For more information or to place your order, please call 1-800-238-3253. To view the publication, visit [www.sharpenet.com/pubs/pdf/givingsec.pdf](http://www.sharpenet.com/pubs/pdf/givingsec.pdf). 



News and ideas about The Sharpe Group's services.





## Issues in Gift and Estate Administration

Most leaders of America's nonprofits are aware of the importance of income from bequests, trusts, and other planned gifts. With hundreds of billions of dollars in planned giving "expectancies," tens of billions are received in "maturities" each year. Have you ever wondered if you are receiving all your donors' intended gifts? How much money is simply slipping through the cracks?

The one-day seminar "Issues in Gift and Estate Administration" is designed for gift planning professionals as well as CFOs, general counsel for nonprofits, and others involved in administering estates.

With the much-anticipated wealth transfer getting off to a slower start than expected, many development, finance, legal, and other members of the senior management teams are examining ways to increase funding from planned gifts that are maturing each year. Time delays, mismanagement, and even fraudulent activity can be costly and diminish the amounts actually received. The dollar amount lost each year could easily be in the billions if just 5%-10% is lost or consumed in an inefficient estate settlement process.

Learn how better coordination and management of the estate settlement process can provide a simple, cost-effective way to increase the return on investments that have been made to encourage planned gifts over the years.



**Plan today to attend one of these upcoming presentations  
of "Issues in Gift and Estate Administration."**

**Memphis  
February 28**

**New York  
April 10**

**Washington, D.C.  
April 12**