

## Bequest Giving in 2006— The Good, the Bad, and the Surprising!

**T**he Giving USA Foundation, which tracks contributions to nonprofit organizations, recently released its estimate for giving in America in 2006. According to its 52nd annual report, *Giving USA 2007*, total giving in 2006 is estimated at \$295.02 billion. This figure represents a 4.2% increase over giving in 2005.

When adjusted for inflation, total giving in 2006 grew 1% over 2005. While gifts from living individuals increased 4.4% and foundation gifts rose 12.6% over 2005 figures, corporate giving saw a 7.6% decline. Bequest giving totaled \$22.91 billion, a 2.1% decline over the revised 2005 total of \$23.4 billion.



The Sharpe Group will host the “Integrating Major and Planned Gifts” seminar in New York in August. See page 3 for details.

### Behind the dip in bequests

*Giving USA* attributes the drop in bequest income for 2006 to an unusual increase in 2005 as reported by the IRS and to the fact that, overall, the U.S. is seeing slowing death rates and longer life expectancies that are compelling more people to expend assets for long-term health care and other expenses later in life. In fact, since 1999, bequest revenue received by America’s charities has been relatively flat when adjusted for inflation (See chart at left).

In a widely discussed 1999 report, Boston College professors John J. Havens and Paul G. Schervish predicted a \$41 trillion wealth transfer beginning in 1998 and ending 55 years later in 2053. In order to focus their findings, the predictions were divided into two periods. They estimated that charities would receive as much as \$2.7 trillion during an initial 20-year period beginning in 1998. The bequest amount estimated for that period was \$1.7 trillion.

They used historical patterns and wealth-growth rates that were supported by a long-term historical record. In fact, wealth did not increase as estimated. Other changes in demographics and giving behavior have also meant that the predictions made in 1999 have not been realized.

Between 1998 and 2006, *Giving USA* reports that a total of \$174 billion has actually been bequeathed to charity, which is just one-tenth of the estimated \$1.7 trillion predicted by 2018. Therefore, in order to achieve the minimum 20-year wealth transfer projection of \$1.7 trillion in bequests to charity by 2017, over \$1.5 trillion in charitable bequest income would have to be received over the next 11 years. The annual average would need to be over \$140 billion each year, some six times the amount received in 2005, which, at \$23.4 billion, was the record year so far for charitable bequests.

It now seems highly unlikely that nonprofits will realize even



# Charitable Giving and the Alternative Minimum Tax

by Barlow T. Mann

The alternative minimum tax (AMT) was originally enacted as part of the 1969 Tax Reform Act. It was intended to catch a relatively small number of very wealthy persons who were not paying any income taxes. In recent years, however, millions of Americans have been caught in the AMT trap, including many upper middle-income taxpayers. If left unchanged, it has been estimated that as many as 30 million taxpayers could be affected by the AMT by 2010. This problem has been caused in part by the reduction of maximum regular income tax rates, increases in the AMT rate over time, failure to index AMT exemption amounts for inflation, and other factors.

Many members of Congress would like to eliminate the AMT or at least fix the current problems, but the cost in lost tax revenues has thus far prevented any permanent solutions from moving forward.

## The AMT system

In a nutshell, the AMT is an alternative to the regular income tax system. After calculating your regular income tax, you re-calculate your taxes using an "alternative" system. If the AMT is higher than your regular income tax, you pay the higher amount. In calculating the amount of income subject to the AMT, taxpayers are not allowed certain deductions and credits that are available under the regular tax

system. These include state and local income taxes, unreimbursed business expenses, and certain medical expenses. While the AMT rates are only 26% and 28%, they are applied to a broader tax base, thus causing a tax problem for a growing number of middle-class taxpayers, not just the very wealthy taxpayers it was originally intended to tax.

## The charitable alternative

If you know or suspect that some of your donors will be subject to the AMT, relief may come from an unsuspected source—their charitable gifts. Many people do not realize that the charitable deduction provides savings under both the regular and alternative system. Additional charitable gifts claimed as itemized deductions for regular income tax purposes can serve to reduce the difference between the regular income tax and the alternative income tax. In this way, it is possible to reduce or possibly eliminate the additional AMT levy that otherwise would be due.

By making early calculations, taxpayers may be able to determine the impact of additional charitable gifts on the AMT. Accelerating pledge commitments or making larger than ordinary gifts within the allowable 50% and 30% AGI limitations should be considered. Donors may want to consider using appreciated property such as stocks, bonds, and other securities for this purpose. For

charitable purposes, these gifts are deductible at full fair market value, including any paper profit. If the same stock were sold, the capital gain element could cause additional AMT to be due.

As growing numbers of donors are caught by the AMT, many are under the mistaken impression that charitable gifts provide no tax benefits under the alternative tax. To avoid mistakes in planning based on this erroneous assumption, be sure that donors and their advisors understand that charitable gifts can reduce both the regular and alternative tax liability.



**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.**

## GIVE & TAKE

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# Sharpe Seminar Series

## Featured Seminar: Integrating Major and Planned Gifts

The number of donors in the traditional age range for making bequests and many other planned gifts is now declining as the G.I. Generation passes from the scene. At the same time, the Silent Generation and unprecedented numbers of Baby Boomers are moving into their prime years for major and planned gifts. As a result, strategic organizational structures will be constructed around

the age and wealth of donors rather than the timing and use of gifts.

Economic uncertainty and changes in tax laws make it necessary for development executives with various responsibilities to do a better job helping donors structure larger gifts. Learn practical ways to assist donors in making gifts most appropriate to their age, wealth, and other factors while you meet needs for current, capital, and endowment funding.

Special emphasis will be given to working with donors' advisors to create



gifts with the greatest charitable benefits on an immediate and long-term basis.

## On the Agenda for 'Integrating Major and Planned Gifts'

### Day One

- Understanding The Donor Life Cycle
- Tax Incentives for Charitable Gifts—What's Left?
- Managing the Gift Planning Matrix
- The Best Planned Gifts in Today's Environment
- Helping Baby Boomers Make Cost-Effective Major Gifts
- Making Gifts Using Pre-Existing Estate and Financial Planning Tools

### Day Two

- Meeting the Needs of the Silent Generation
- Gift Planning for the G. I. Generation
- Estate Planning After Estate Taxes
- Communicating Gift Planning Opportunities
- How to Terminate Deferred Gifts
- Working With the Donor's Advisors—Are They Friends or Foes?

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 . . .

*"The information you shared regarding practical ways to integrate age and wealth into donor gifts was exactly what I had hoped to take away from the presentation. Thanks!"* —Anne Marie Chastain, Indiana University Foundation, Bloomington, IN

*"For an experienced development officer, this has been a great refresher and a re-energizing two days."* —Doug Smith, Church World Service, Pomona, CA

*"This seminar opened my eyes to gift plans suitable for different age groups and situations. The Gift Planning Matrix will be valuable for me."* —Richard Juday, Central Michigan University, Mount Pleasant, MI

## UPCOMING SEMINAR TRAINING DATES

### An Introduction to Planned Giving

New York August 20-21  
Tampa October 29-30

### Managing Planned Giving Relationships

New York  
August 22-23

### Major Gift Planning

New York  
September 13-14

### Integrating Major and Planned Gifts

New York  
August 6-7

Multiple registration discounts are available. For more information or to register, please contact The Sharpe Group.  
Phone 1-800-238-3253, ext. 5313 • Fax 901-761-4268 • Web site: [www.sharpenet.com](http://www.sharpenet.com) • E-mail: [seminars@sharpenet.com](mailto:seminars@sharpenet.com)

# Recognition Societies: Membership Should Come Easily

Most successful development professionals realize the importance of establishing and maintaining a recognition society that honors planned gift donors. Much like the donor societies that honor current contributors, planned gift recognition societies provide a way for an institution to strengthen long-term relationships with donors who have made a commitment through a bequest provision, retirement plan or life insurance, life income gift, lead trust, or other gift planning arrangement.

The benefits of having a donor recognition society specifically for planned gift donors are clear: They help cement relationships with donors, allow an organization to properly thank donors through special events or listings in donor publications, provide a memento symbolic to the organization or institution, and facilitate continued contact with donors who may be reaching the age at which their current giving may be decreasing or lapsing entirely.

While most agree that appropriate recognition of planned gift donors is critical, there is some disparity when it comes to the specifics of membership in such societies. Who should be included? Should there be a minimum gift amount for membership? Should the donor have to provide the organization with copies of wills, trusts, or other documents to prove the gift has been arranged? How tangible should the benefits be?

## Inclusive vs. exclusive

Recognizing donors for their planned gifts with a special, separate giving society is an effective way to keep in touch with planned

gift/bequest donors. Such societies also help an organization discover those who may have never told you about existing planned gift provisions, and also aid in the retention of those provisions.

**“Make the group as inclusive and easy to join as possible.”**

Once you have discovered that someone has created a planned gift or bequest to benefit your organization, what is the next step? Are they automatically admitted to the planned gift recognition society?

The guidelines for admission into a planned gift recognition society can be simple—make the group as inclusive and easy to join as possible. If a donor lets you know that she has left a gift to your organization in her will, estate plans, or through another gift planning arrangement, then she should be invited to join your recognition society with no more questions asked.

“You want to encourage people to let you know about their planned gifts,” says The Sharpe Group’s Barlow Mann, “not discourage them with various restrictions. Once they have joined, you may discover additional information about the gift in the future.”

## For example

Some organizations require “proof” of a planned gift intention, such as a copy of the page of the will or trust that includes details about a donor’s gift. Some programs decide that this practice

may not be the wisest way to proceed with a donor who has made a long-term, often revocable, charitable commitment.

“I was speaking with a development executive who had received a broad-based communication on the subject of charitable estate dispositions from a university she attended,” says Robert Sharpe, president of The Sharpe Group. “She has named the institution to receive her life insurance proceeds in the event of her death. She notified the institution of this fact and in response was asked to produce ‘proof’ that she had made this commitment so she could be included in the institution’s estate recognition society.

“The development executive/donor was quite perturbed and shared the fact that she was considering changing her plans. She noted that even if she sent ‘proof,’ she could always change the beneficiary at any time following the notification,” Sharpe says.

**“There is little to gain in asking for ‘proof’ of a planned gift.”**

Since most bequests and other planned gift commitments are revocable, there is little to gain in asking for “proof” of a planned gift, but there is much to lose—both the relationship with committed donors and their future gifts (and any current gifts they may have made along the way). Such a policy may be seen as “forward” or even intrusive in some cases.

*Continued on page 6*

# Bequest Giving in 2006 ... continued from page 1

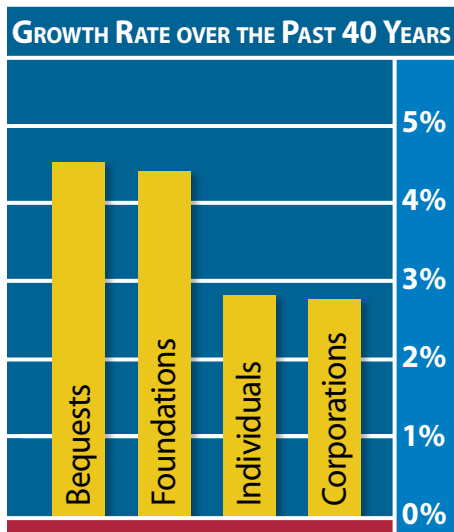
one-third of the amount of bequests projected for the initial 20-year period.

## Good news

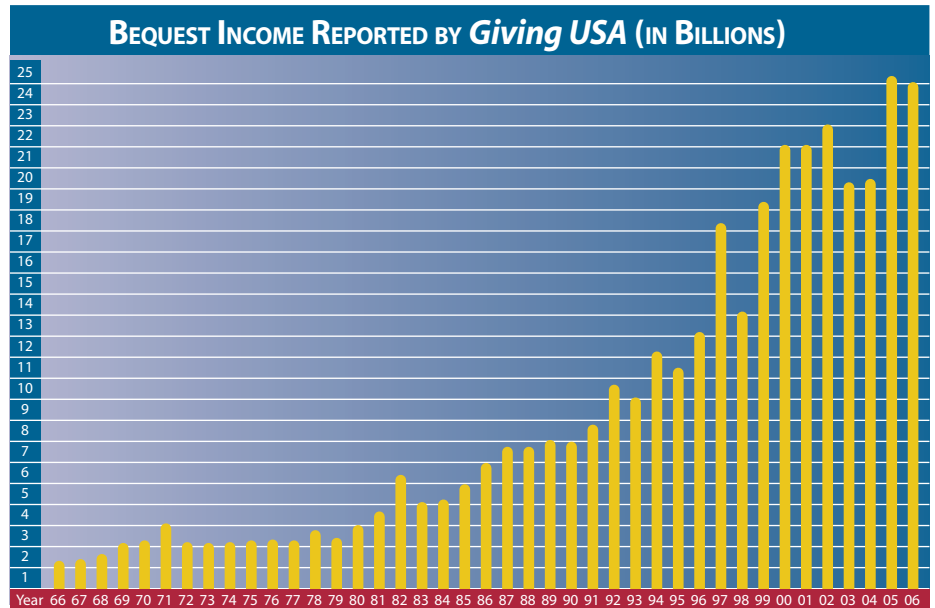
There is, however, some good news regarding bequests to charity. Note the longer-term trend in bequest income as reported by *Giving USA* for the period 1966 through the present (See chart at right). While there has been little inflation-adjusted growth in bequests in recent years, note that bequest receipts more than doubled between 1985 and 1995, and nearly doubled again between 1995 and 2005.

## The surprising news

According to *Giving USA*, income from bequests has actually been the fastest growing source of gift income over the past 40 years. Adjusted for inflation, bequests have grown by an average of 4.5% each year since 1966. By comparison, gifts from living individuals grew at a rate of just 2.8% per year over the same time period, while gifts from corporations and foundations grew at 2.7% and 4.4% respectively.



There is currently no reason to believe that the minimum Schervish and Havens wealth transfer numbers for bequest revenue between now and 2017 will be achieved. That would



require a compounded growth rate of 47% per year over the next 11 years—some 10 times the historical growth rate. It appears, however, that various demographic and economic trends should result in at least a doubling of bequest income over that time period, perhaps continuing the 40-year trend of bequests being the fastest growing source of philanthropic support.

## New expectations

When it comes to setting your organization's expectations in regard to future bequest income, we feel the latest data as well as the 20-year and 40-year bequest statistics bode well for future growth. This should be viewed as a "the glass is half full" opportunity.

With the smaller "Silent Generation" (those born between 1925 and 1942) now moving into the age range where final estate plans are most often made, bequest income during the remainder of the first phase of the wealth transfer will depend on how well nonprofits are able to make their cases for support through estates of this age cohort, a group that is smaller than the G.I. Generation that preceded them and the Baby Boomers who will follow them as bequest donors.

Now is the time to return to the basics of planned gift marketing. Since other data reveals that less than half of adults have a valid will or other estate plans in place, now is the time to encourage constituents in the relevant age range to make the final estate plans that will be the operative ones where their charitable dispositions are concerned. For those who have already made their plans, communications should focus to a large extent on the need to review those plans and keep them up to date in light of changing life events.

Development professionals may want to pay particular attention to existing bequest expectancies as well as those who have in the past indicated they would consider including a charitable organization in their estate plans. When donor relationships are effectively stewarded and properly maintained, such donors may fund other planned gifts as well as make increased current gifts over the remainder of their lifetime.

*Editor's note: Robert Sharpe serves on the board of the Giving USA Foundation and is a member of Giving USA's Advisory Council on Methodology.*

# Recognition Societies . . . continued from page 4

Other policies may be more proper in the context of a capital campaign or other special development efforts where recognition is being given for the gift and/or the institution will rely on the commitment when planning for future spending.

**“You want to encourage people to let you know about their planned gifts.”**

Other institutions favor setting a minimum dollar amount on gifts in order to be included in such societies. “When organizations promote a dollar amount minimum for joining a planned gift society, this could cause

problems in a number of ways,” says Mann. “First, donors who initially may have been considering a larger gift may reduce their amount simply to meet the minimum requirement for society membership. Second, many of the largest bequests to nonprofits are in the form of residuary bequests that are satisfied only after fulfilling specific bequests to others. In those cases it is difficult, if not impossible, for a donor to know the amount of the bequest that will eventually be received. For that reason, it is important that planned gift recognition societies not inadvertently discourage such gifts by requiring the disclosure of a specific amount.”

## Trust your donors

When someone tells you that they have included you in their will or other long-range plans, think about what this means. A high level of donative intent—and trust—is

required to make a decision of this magnitude. Usually only a small percentage of those who have acted will let you know. Many prefer privacy, others may want to change their plans later, and some do not want you to count gifts that may or may not be a sure thing depending upon the circumstances.

Just as the donor’s gift shows their trust in an organization, gift development professionals must extend the same, or more, trust to the donor. That is why many programs take the position that when a donor lets you know that they have included your organization in their will or other planned giving vehicle, this should be enough to trigger an invitation to join your recognition society.

## Visit the Give & Take Archives

Would you like to re-examine an article you found interesting in *Give & Take* last year? Or do you need to provide a new staff member with some gift planning reading material that will give them a brief background of the major issues facing development officers in recent years?

When you visit the *Give & Take* Archives on The Sharpe Group Web site, you have instant access to over 360 articles on a variety of gift planning topics—from how to communicate the benefits of gifts made in long-range plans to the latest tax information affecting charitable giving.

It’s easy to visit the *Give & Take* Archives. Simply log on to [www.sharpenet.com](http://www.sharpenet.com), click on “Give & Take,” then click the “Give & Take Archives” link on the left. You can then scroll through 10 years worth of enlightening articles written by some of the nation’s premier fundraising consultants and gift planning executives.



## Plan Today for Year-End

Make sure you reach out to your donors during the traditional end-of-year giving season. The Sharpe Group has created four brochures in 2007 to help you communicate the benefits and opportunities available through year-end giving. These 6-panel brochures are cost-effective, attractive pieces that can be used with a broad range of constituents.

Whatever type of charitable organization you represent, you are sure to find one Sharpe year-end giving brochure that meets your needs:

**“Giving at Year-End”** explores the advantages of funding gifts in various ways, including cash, appreciated property, retirement plans, and other assets. Offered in two distinct

designs, this brochure may be especially useful in encouraging gifts from those who have yet to make a gift this year.

**“Giving Thanks at Year-End”** emphasizes the spirit of Thanksgiving and how it can translate into charitable giving in the fall.

**“Giving Before December 31st”** stresses the tax advantages available to those who make gifts to charity before the end of the year. This brochure may be especially suitable to supplement communications with donors later in the year.

The brochures also feature references to the importance of reviewing long-term economic plans at year-end as well. This can be an excellent way

to help increase current funding while also conveying the importance of considering charitable interests when making or revising a will or other estate plans.

Each brochure may be personalized with your logo and contact information on the front and/or back cover at no additional fee. Or, if you prefer, you may totally customize your year-end brochure, substituting your own cover and/or including references to your organization throughout the text.

To view all four brochures in their entirety, please visit [www.sharpenet.com/yearend](http://www.sharpenet.com/yearend). For more information or to place an order, contact us at 1-800-238-3253.



# Fall Training Opportunities

Thousands of development executives have relied on The Sharpe Group's training to help them realize the full funding potential of their programs. If you want to increase your awareness of gift planning options and techniques, there is still space available in the following Sharpe Training Seminars:

## August

Integrating Major and Planned Gifts	New York	August 6-7
An Introduction to Planned Giving	New York	August 20-21
Managing Planned Giving Relationships	New York	August 22-23

## September

Major Gift Planning	New York	September 13-14
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## October

An Introduction to Planned Giving	Tampa	October 29-30
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## November

An Introduction to Planned Giving	San Francisco	November 28-29
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Registration is always limited to allow for more interaction between participants and instructors. Previous seminar presentations have sold out. Register early to ensure your spot.

For more details or to register, call 1-800-238-3253 ext. 5313, or visit [www.sharpenet.com/seminars](http://www.sharpenet.com/seminars).

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 The Sharpe Group  
8700 Trail Lake Drive West  
Suite 222  
Memphis, TN 38125

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