Vol. 40 No. 3 March 2007

Give&Take™

News and Ideas for Development Executives of Nonprofit Organizations

Don't Let Estate Taxes Drive Your Efforts

The estate tax phaseout process, which in 2002 began to reduce the number of individuals impacted by the estate tax, is scheduled to continue through 2010. At that time, the estate tax is due to be repealed, and it will be left up to Congress to decide whether that repeal is made permanent.

With the election of a Democratic majority in Congress last November, some commentators have suggested that it is perhaps less likely that an estate tax repeal will actually occur in 2010, much less be made permanent. As a result, many development professionals who may have been planning to pursue their efforts in a world without estate taxes may now be wondering, "Is it time to return to the days of promoting charitable gifts as a way to avoid estate taxes?" Probably not, and here's why.

Join The Sharpe Group this spring in Washington, D.C., for the training seminar "Integrating Major and Planned Gifts." See page 3 for details.

Moot point?

IRS data reveal that of the 2.4 million people who died in 2005, only 18,431 were subject to estate tax. That means that 99.2% of people who died in 2005 did not owe estate tax. Of those subject to estate tax, 4,324, or 23%, left bequests to charity. It has been estimated that 8% of persons who die leave funds to charity. If that were the case, then the 4,324 persons who left funds from taxable estates represent just 2% of the 192,000 persons who left funds to charity. Put another way, it is estimated that some 98% of the estates from which charitable bequests are made are not subject to estate tax.

The fact that 98% of those who left bequests to charities in 2005 did not own sufficient assets at death to owe federal estate tax may be especially interesting to those who are new to the world of charitable gift planning. This should come as no surprise, however, to experienced development professionals who know that most bequests in terms of numbers and as much as half of charitable bequest dollars have traditionally come from donors with smaller, non-taxable estates. These donors are most often older, often widowed or never married. Many are childless. Such persons typically leave relatively small amounts to friends and relatives, with the bulk of their estates left as residuary bequests to charitable interests. They receive no estate tax savings for their gifts under current law and most likely would not enjoy estate tax benefits even if the tax were reinstated at pre-2001 levels. Therefore, the typical charitable bequest donor must be motivated by factors other than estate tax savings.

New perspective

Rather than promoting estate-tax avoidance as a way to motivate donors to include charitable provisions in their wills, perhaps a more effective approach in coming years, as in the past, would be to encourage constituents to make their estate plans and/or revise them as the case may be. As noted above, studies have shown that only about 8% of all Americans will actually include charitable dispositions in their estates. If, as data suggests, only half of the decedent population has a valid will or other estate plans in place, the entire 8% must come from the 50% with a will, meaning that some 16% of those who die with wills leave funds for charitable purposes.

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Inside:

How a CLT can provide for family and charity.

Using the Charitable Lead Trust to Create a 'Temporary Endowment'

by Robert F. Sharpe, Jr.

Experienced development professionals will occasionally encounter wealthy donors whose first priority is not to make their children financially independent in their younger years. In many cases, such persons are entrepreneurs who have accumulated significant wealth during their lifetime. In fact, as many as 80% of millionaires have created their wealth from their own endeavors and have not experienced the benefit of an inheritance. Many successful people hope that their children will experience the same satisfaction of making their own way. These parents are concerned about their offspring and want to help them become financially responsible.

Given these facts, advisors often recommend a private foundation for the very wealthy, and, perhaps, an advised fund at a community foundation or elsewhere for those with lesser means. This strategy offers a way to shield assets from estate taxes while giving their adult children the opportunity to make charitable gifts to organizations and institutions of their choosing.

How one plan would work

On one occasion, I met with a couple in their mid-sixties who had amassed total wealth in the range of $20 million. They were understandably unhappy to learn that they could ultimately pay upwards of $9 million in estate taxes if they did not make plans to minimize or eliminate this tax. Given recent changes in Congressional leadership, some in this situation are less and less hopeful that the estate tax repeal scheduled for 2010 will ever take place. This couple had expressed a desire to "do something" for their two children (ages 32 and 34), but they didn't want to give them "too much, too soon."

One of their advisors recommended that they make gifts totaling $2 million to their children in a trust using their combined gift tax exemption amounts of $1 million each. They would then add amounts each year that they could give under their $12,000 per donee annual exclusion amounts. In 15 years, when the children reached ages 47 and 49, the balance remaining in the trusts would go to the children. With the balance, they were advised to leave what they could to their children free of tax at death and fund a private foundation with any remaining amount, thereby eliminating estate taxes that would otherwise be due. Their children would be named as trustees of the foundation and be given the right to make gifts to the charities they choose.

Neither parent was particularly happy with this plan because they felt they were substantially reducing their children's inheritance in order to save taxes. Although this bothered them, they could see no other way out. Is there a better way?

An alternative plan

Suppose they were instead to create a charitable lead annuity trust today, funding it with $8 million? If the trust were established to pay 7.5%, or $600,000, to charities of the donors' choosing each year for 15 years, the donors would enjoy a gift tax deduction of some $6.1 million, leaving a taxable gift of $1.9 million in the year the trust is created. Their gift tax exemption amounts could be used to offset this gift, resulting in a gift of $8 million (more or less, depending on the performance of the trust assets) to their children at a "cost" of their combined $2 million gift tax exemption amount. If they wished, the parents could direct that some portion of the lead trust payments be paid to charitable interests of their choosing and the balance to an advised fund at their local community foundation or elsewhere. If half of the payments were directed to an advised fund, the children could make suggestions for the distribution of some $300,000 per year.

The net result? The donors retain $12 million to use as they wish for the remainder of their lives, create an income stream of $9 million to charities of their choice, and provide an $8 million tax-free inheritance for their children in 15 years, the same point in time they initially wanted them to receive their inheritance. They have provided for their children as they wished in a way that fulfills their charitable intentions and eliminates the estate and gift tax on the $8 million gift to their children.

If they wish, the couple can continue their annual giving program to their children, and leave what they can to them free of tax from the remainder of their estate at death. With the balance of the assets, they might decide to fund a

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Give & Take:

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SHARPE GROUP

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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. G&T

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 for a complete agenda and dates for this and other Sharpe seminars.

What Attendees Are Saying About 'Integrating Major and Planned Gifts'

"This is very timely and helpful—the best seminar I have ever attended!"
—Ed Roberts, The Salvation Army, Kansas City, MO

"Each session was a '10' for me—one of the best seminars I have ever attended."
—Sr. Margaret Mahoney, Catholic Diocese of Wilmington, Wilmington, DE

"Incredible conference. Two days of a wealth of knowledge."
—Virginia Mullins, American Red Cross, Washington, DC

"Presentation held my interest throughout. Never felt that I was in a hurry for a session to end." —Hal Reed, University of Connecticut Foundation, Storrs, CT

Upcoming Seminar Training Dates

An Introduction to Planned Giving

Boston
June 18-19

New York
August 20-21

Managing Planned Giving Relationships

New York
August 22-23

Major Gift Planning

Chicago
March 29-30

New York
April 16-17

Integrating Major and Planned Gifts

Washington D.C.
April 23-24

Chicago
June 11-12

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

What Have You Learned From Your Donors?

Mary Ellen Malone
Director of Planned Giving
Manhattan College
Riverdale, New York

I have learned that donors are very selfless. When people are thinking about a planned gift, they are looking back at where they've come from and what they are going to leave behind once they're gone. They're at a stage in their lives where a lot of their worries are over—they've raised their children, they've retired so there are no more work pressures. Many of them have valued their education and found that Manhattan College helped open a lot of doors for them, made their lives easier, and made their career choices richer.

Our mission for 150 years has been to educate the poor and underserved. In many cases, our donors were the first in their families to attend college. When they plan their gifts, they really want to be sure that they benefit needy students. This goes back to our mission, which the donors realize is as relevant today as it was when they were at Manhattan College.

Our donors have taught me the value of stewardship. Donors who arrange for planned gifts are making Manhattan College a priority in their giving, and it is very special that they are thinking about us when they are considering their end-of-life gifts. We work very carefully with these usually elderly donors because they are not going to have the opportunity to change these gifts or do them better the next time. A planned gift has to be done right. You have to integrate the donors' goals into your mission. To do that, you really have to listen to them, ask about their family, and find out what is going on in their lives.

I have also learned that people leave little instructions behind through their gifts. These instructions aren't necessarily written down, they are just there. The instructions our donors leave behind are to remember others, live your faith, get your wings and soar, and then help somebody else soar after you.

Christopher Woehrle
Vice President of Development
Kimmel Center
Philadelphia, Pennsylvania

I have learned from donors I've worked with that there are many faces of philanthropy. For example, I've recently transitioned from Drexel University, a 106-year-old Philadelphia institution, to the Kimmel Center, a much younger arts organization founded in 2001. I would describe many of the Drexel donors as wearing the "repayer" face of philanthropy. They feel they owe a debt to the school which provided them a very practical education. Now they want to pay it back in some meaningful way, such as through endowed scholarships, gifts to bricks and mortar projects, or supporting a particular college initiative.

In the case of the Kimmel, I think the donors are predominantly two other faces of philanthropy. Many are extraordinarily civic-minded, believing Philadelphia is a first-class city deserving a stellar performing arts venue, even if they do not necessarily have a deep passion for the arts.

Then there are those who invest with philanthropy. For example, a businessperson or corporation invests in the Kimmel with the anticipation of a return in terms of recognition through a corporate sponsorship, such as having their company's name on a series of performances highlighting the world-class artists appearing with us. Once you determine which face of philanthropy your donor might be, then you can begin assessing their inclination to do something major in support of your organization and find the best fit for their goals and yours as well.

My donors have also helped me understand that I am an important source of value when it comes to working with them to satisfy their philanthropic needs. Many of our constituents are self-made businesspeople. They have gone from scarce resources to being multi-millionaires or, in some cases, centimillion-

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Estate Taxes*...Continued from page 1*

Therefore it appears that, for those organizations who educate and motivate their donors about charitable bequests and other testamentary gifts, there is considerable room and promise for significant growth in bequest income if they simply encourage their constituents to make plans for the distribution of their assets.

Keep it simple

It is very simple: If more people have wills and long-range plans, there will be more opportunities for charitable organizations and institutions to be included in these plans. Through consistent and effective communication efforts, development professionals can explain to donors, first and foremost, the importance of having an up-to-date will and other long-range plans, the peace of mind that comes from creating such plans, and the opportunities to support charitable interests through their estate and leave a lasting legacy for the future.

Studies have shown that the reason some 97% of donors give for making a charitable bequest is the desire to support that charity's mission (see the National Committee on Planned Giving's report titled "Planned Giving in the United States 2000: A Survey of Donors"). Also, according to NCPG data, more persons said they learned about charitable bequests from an organization's own published material than from any other source.

Nonprofits must continue to explain why their particular cause should receive a portion of the donor's life-long accumulation of assets. Likewise, emphasizing to your donors the need to make and/or update their wills and other estate plans could make the difference between your organization seeing increased bequest revenue or stagnant or declining charitable estate distributions.

Desire to give trumps tax benefits

The existence or lack of an estate tax may influence the amount and timing of some charitable bequests. But, for those who are charitably motivated, tax planning has not in the past and will not in the future be the main factor behind their giving. Charitable behavior as part of the estate planning process is motivated by a broad range of influences including politics, religion, emotion, and social theory, to name a few. Even if the estate tax is restored to pre-2001 levels, those who want their ultimate disposition of assets to reflect their devotion to the causes that have touched their lives will continue to make charitable provisions in their estates.

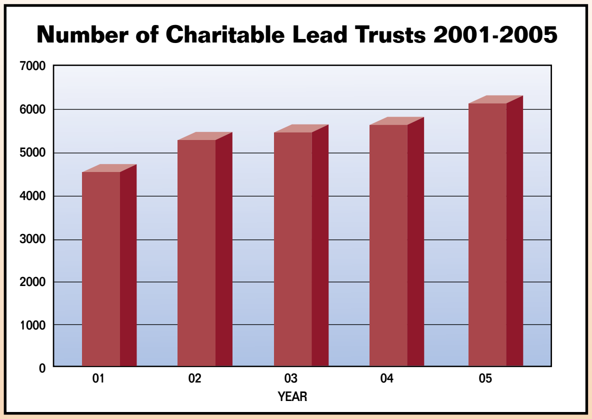
As always, the mission of your nonprofit is what will likely matter most as donors decide, through their long-range plans, to elevate certain charities to the status of a family member or close friend by including them in their estate plans. Maintaining strong relationships with those older individuals who believe in your organization and the work that it does may be the key to success. One proven way to help strengthen such relationships is through ongoing and effective communications with your donors, in person and through other appropriate channels. G&T

'Temporary Endowment'*...Continued from page 2*

testamentary lead trust that will serve to fund various charities, a family foundation, an advised fund, or some combination thereof over time with the remainder distributed in the future to their children, grandchildren, or others. In that event, they will have totally eliminated tax on an estate of $20 million or more. The parents have thus "temporarily disinherited" their children through the creation of a "temporary foundation." They can inform the children of the coming inheritance while letting them know they are "on their own" for the next 15 years.

A boom in lead trusts?

Reports from the IRS indicate that the number of charitable lead trusts has grown dramatically in recent years. In fact, while the number of charitable remainder unitrusts in existence has grown just one-half of one percent since 2001, the number of charitable lead trusts has grown by some 35%.



As of the end of 2005 there were 6,148 lead trusts in existence. The assets held in these trusts totaled approximately $15.1 billion. What may come as a surprise to some is the fact that 4,140, or 67%, of the

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Learned From Your Donors?...Continued from page 4

aires many times over. Most of them don't regard what they do as work, and that's what has enabled them to make huge investments of time to build, grow, and sustain their business enterprises.

When you're working with such people, you don't need to be intimidated or feel like you are "begging for money." As a development professional, you really must look at your work as consultative, because in many cases your role is to help match the needs of your organization with the needs and desires of your potential donors. Donors often have very clear ideas of what they want to accomplish with their philanthropy and take it very seriously. They really do feel that when they pass on, they want to leave their communities in much better shape than they were before they became involved. I think that is a very noble ambition, and that's why gift planning is something to be very excited and passionate about.

And some of that passion has infused me. My wife and I decided to honor my Mom on her 85th birthday by creating an endowed scholarship bearing her name at a Jesuit prep school we all hold dear. So we can never overestimate the effect the generosity of others has on us.

Roger Bouchard
President
Florida Sheriffs Youth Ranches
Boys Ranch, Florida

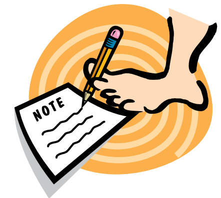
One thing I have learned from working with donors is to be a good steward of donors' assets. Most of our donors did not inherit their assets—they built up significant assets on their own through hard work. These individuals have worked 60 or 70 years to amass the assets they have, and they have read about nonprofits that are not managing their money well. Before they give to us, they want to be sure that they can trust our organization not to squander their gifts.

For seven years I worked with one man who was 93 years young before he decided to include us in his estate plan. He told me, "Roger, it took me 70 years to build up these assets. I need to be sure I can trust the organization I give this to." Not only do they have to trust the organization they are giving to, but they need to be confident in the leadership of the group, and at the Ranches that's me. As good as an organization may be, some donors still want to look someone in the eye and be able to say, "I trust you personally with my assets." That is a big and sobering responsibility.

Another thing I have learned from older donors is that they have a wonderful sense of humor. They don't take themselves too seriously. They will say anything, and we are constantly joking and laughing. They enjoy being able to speak their mind and ask very direct questions.

Donors also teach me great spiritual lessons. Most of my donors know that I was ordained as a minister, so I think that frees them up to have spiritual discussions with me. Watching them deal with what their advanced years may suggest is their fairly imminent death, it is inspiring to see them putting their affairs in order in all areas of their life—working on their relationships with family and friends, contemplating spiritual matters, and preparing their assets for final distribution. There is a lot of thought and preparation in this last stage of life. So the individuals who contact us about potentially making a gift through their estate are not just preparing their assets for a gift, they are preparing to make their final statements in life. G&T

Footnotes



News and ideas about The Sharpe Group's services.

Say 'thanks,' build bridges to planned gifts

Looking for a new way to acknowledge and thank those older donors who have made current gifts? With The Sharpe Group's "Thanks for Giving" brochures, you can express your appreciation for donors' gifts, and remind them about other giving opportunities that can help them protect their financial security as they give.

Available in four attractive cover designs, the six-panel brochure can help plant the seeds about planned gift opportunities with those older, long-term donors who are current givers—a prime group to educate because they have already expressed an interest in your mission through their gifts over the years.

Also keep in mind that the Pension Protection Act of 2006 now requires donors who itemize their gifts to charitable organizations to have receipts or bank records for all gifts, big and small, in order to qualify for a tax deduction. "Thanks for Giving" may be an excellent acknowledgment piece to accompany gift receipts furnished to donors.

In addition to the helpful information about ways to include charitable giving as part of their long-range plans, donors will also have the chance to request further information from you on topics that interest them by filling out and returning the attached response device.

To view samples of "Thanks for Giving" brochures, please see our Web site at www.sharpenet.com/pubs/ and click on "Specialty Brochures." For more information or to place your order, please call 1-800-238-3253.

Encourage memorial gifts

Studies have shown that the desire to honor a loved one is a strong motivator for donors who decide to include charitable gifts in their estate plans. In fact, a 2002 NCPG study indicated that the desire to memorialize a donor or their loved ones was nearly as strong a motivator as the desire to save estate taxes. Inform your donors about the special giving opportunities available through memorial and honor giving with Sharpe's "Giving Through Living Memorials" brochures.

"Giving Through Living Memorials" not only explains the many ways a memorial gift can be funded, but also includes an attached response device that can be personalized so your donors may include gifts and/or request additional information.

The spring months offer special occasions that may be particularly fitting times for donors to remember loved ones with special gifts to causes important to them—Mother's Day, Father's Day, Memorial Day, graduations, and days of religious importance. Be ready to initiate discussions with donors about the meaningful significance and other benefits of memorial giving. For more information about "Giving Through Living Memorials," call 1-800-238-3253 or visit our Web site at www.sharpenet.com/pubs/ and click on "Specialty Brochures." G&T

'Temporary Endowment' *…Continued from page 5*

trusts held assets of less than $1 million. These trusts held an average of $367,000. Overall, the average size of charitable lead trusts was $2.5 million. This indicates that more and more donors of relatively modest means are finding that charitable lead trusts can be an important part of their charitable and estate plans.

We believe that the future may hold even greater growth for charitable lead trusts. As the estate tax will have less of an impact at the death of many persons, an increasing number will be looking to minimize the impact of gift taxes on gifts to children and others while also fulfilling charitable gift commitments during their lifetime. Organizations that are prepared to structure major current and deferred gifts in this way will benefit through the creation of "temporary endowments," in some cases in the form of charitable lead trusts. This is only one example of how understanding the interrelationship between donors' philanthropic and other motivations can lead to significant gifts that might not otherwise be possible. G&T

Editor's note: This information is excerpted from the Sharpe seminar "Integrating Major and Planned Gifts." See page 3 for more information about this professional development opportunity.

THE SHARPE SEMINAR SERIES

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 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. For more information about this seminar, please call 1-800-238-3253, ext. 5360, or visit www.sharpenet.com/seminars.

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

New York	Washington, D.C.
April 10	April 12

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