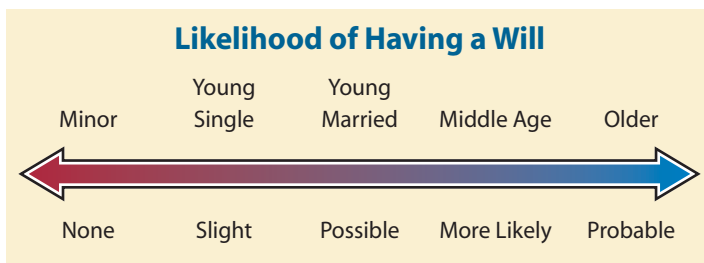


## The Lifecycle of a Typical Bequest Donor

It is a well-established fact that the majority of adults have not taken steps to draft even the most basic last will and testament. A number of factors, including wealth, education, religion, age, and marital status, can help determine whether or not an individual is likely to have a will or other estate plan in place. To a certain extent, the likelihood of having a will and the probability of having a provision for charity follow a relatively predictable timeline.



Don't miss the chance to attend "Integrating Major and Planned Gifts" on November 4-5 in Washington, D.C. For details, see page 3 or [www.sharpenet.com](http://www.sharpenet.com).



### This is their life

While it is a matter of state law, in most cases persons under the age of 18 may not create a will. To have a will, an individual must legally be an adult with sufficient mental capacity as determined under state law.

Drafting a will is not a high priority for those in their late teens or early twenties unless they are in the military and are required to do so prior to going overseas. Even then, whatever assets they own—most often employer-sponsored life insurance and retirement plan funds—are likely to pass by beneficiary designation. If the individual is unmarried, parents or siblings are likely to be the primary beneficiaries of the estate. The number of deaths per thousand is very low in this younger age range.

At this early stage of life, charitable bequests, if any, are relatively rare and likely to be small because few persons at this young age have accumulated much net worth. A small specific bequest, typically a few thousand dollars at most, may be considered. Occasionally, a charity may receive all or a portion of a small retirement plan balance or life insurance policy.

Many young people in their twenties and thirties choose to marry and trade apartment life for a home or condominium. It is not uncommon at this point for net worth to become "negative" because of mortgages, automobile loans, and consumer debt.

Very few individuals at this age have wills because asset transfer in the event of premature death has already been arranged by joint ownership, beneficiary designation, and state laws that would typically favor a surviving spouse. Any charitable estate gifts are still most likely to stem from contingent beneficiary designations on life insurance policies or retirement plans.

### Married with children

Once a couple has children, things get more complicated. Estate plans must now resolve issues such as guardianship of minor children, potential distribution of assets under state law (a surviving spouse might end up receiving only a fraction of the decedent's estate if there are children), and other considerations. Often additional life insurance is purchased to provide for a spouse or children in the event of the death of one or more of the family's breadwinners. Most charitable gifts take the

*Continued on page 6*

# Not-So-Brilliant Deductions

In recent weeks an increasing number of commentaries have appeared in the financial press and publications for fundraisers suggesting that donors should delay their gifts until next year when tax rates may be higher—and charitable income tax deductions could save more.

At first blush, this may seem like good advice. After all, the mathematical formulas don't lie. If a person in the 28% tax bracket does not make a charitable gift, he would owe \$2,800 in income tax on \$10,000 of income. If the same person makes a gift of \$10,000, his tax bill would be reduced by \$2,800. If the same \$10,000 were given by someone in the 35% tax bracket, the tax savings would rise to \$3,500, a difference of \$700.

Figures such as these have sparked the interest in how higher tax rates could increase the savings from charitable gifts and reduce the after-tax cost of giving. And because capital gains tax is bypassed when appreciated stocks and certain other properties are used to fund charitable gifts, tax savings may increase even more when capital gains taxes also increase.

Unless Congress acts in the meantime, on January 1, 2011, taxes on ordinary income and capital gains are scheduled to rise to maximum rates of 39.6% and 20% respectively. Taxes on dividends could rise from 15% to 39.6% as well.

## The importance of timing

Traditional tax planning advice dictates that a donor take as many deductions as he or she can for the current year and delay as much income as possible to a later year. This plan results in minimizing income taxes in the current year, while delaying additional taxes until a later date.

If, as now, income tax rates are scheduled to rise in the future, this strategy is normally reversed, with

**For many donors, the most tax-wise strategy this year will be to accelerate income where possible and offset the additional taxable income by increasing charitable gifts.**

income accelerated into the low-tax-rate year and deductions delayed until higher tax rates make them worth more in the future. (See page 8 of the July 19, 2010, edition of *Forbes*.)

But is this the best idea for charitably inclined persons this year? Not necessarily. Because of the uncertainties surrounding tax legislation for 2011, there are a number of reasons why it may be a better idea for donors to maximize their gifts in 2010.

## Why donors may want to give now

First, there are "cash flow" considerations to be taken into account. Suppose someone would like to make a charitable gift of \$10,000. If the gift is made this year, it could be deducted against a maximum tax rate of 35%. The after-tax cost of the gift would be \$6,500. If that person chooses instead to delay his or her gift until 2011, an additional \$3,500 in taxes will be owed next April on the income not given in 2010, leaving just \$6,500 to give next year.

Second, the rule that reduces itemized deductions by 3% of the amount by which adjusted gross incomes (AGIs) exceed certain amounts is scheduled to be reinstated in 2011, reducing the benefits of giving for many in higher tax brackets. This could serve to reduce the value of deductions for some by more than the additional savings offered by higher tax rates.

Finally, federal budget proposals have been pending that would further reduce the benefits next year for charitable gifts and other itemized deductions under federal income tax law. If, as has been proposed, deductions for charitable gifts are limited along with other deductions to the 28% tax bracket, the tax savings for the \$10,000 gift previously described would be limited to \$2,800 and a donor in the new 39.6% bracket would then owe as much as \$1,160 in additional tax on the \$10,000 gift. If this occurs, some have predicted that major donors will be advised to give less next year because of the need to hold back cash to pay the newly levied taxes on amounts they donate to charity. In the case of the \$10,000 gift, a donor might be advised to reduce the gift to just under \$9,000 and hold back \$1,000 to

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## GIVE & TAKE.

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# Sharpe Gift Planning Seminars

## Integrating Major and Planned Gifts

This seminar is designed for the benefit of those responsible for major gifts, planned gifts, or both, as well as managers with a need to better integrate the efforts of specialists in these areas.

The number of donors in the traditional age range for bequests and many other planned gifts is growing more slowly 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 plans will increasingly be formulated based on the age and wealth of donors rather than the size, timing, and use of gifts. Ongoing economic uncertainty and changes in tax laws also make it necessary for fundraisers with various responsibilities to do a better job helping donors plan and structure larger gifts.

Learn practical ways to assist donors in making gifts most appropriate to their age, wealth, and other factors while meeting current, capital, and endowment funding needs. 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.

### Upcoming Seminar Training Dates

#### An Introduction to Planned Giving

Washington, D.C.  
September 13-14

#### Integrating Major and Planned Gifts

Washington, D.C.  
November 4-5

## Don't Miss the Chance to Train Your Staff With Sharpe's 'On-Demand' Webinars

How would you like to have a team of experts train your entire staff on topics of broad interest without having to leave your conference room? With Sharpe's new on-demand webinars, now you can. The process couldn't be simpler. Simply choose a time that's convenient for you and your staff, and then register for a training session at [sharpenet.webex.com](http://sharpenet.webex.com).

Sharpe's latest offering is "How to Win in 2010." Available for viewing on your schedule at the office or at home, this webinar is ideal for a staff meeting or for high-level management and volunteers. In addition to the 60-minute presentation, a detailed 20-page handout is included and may be printed for your attendees.

The topics covered in "How to Win in 2010" include the following:

- What are the best gifts in light of the uncertainty regarding the future of the estate and income tax?

- Why are some donors being told by advisors to delay their gifts until next year, and why might this be a costly mistake?
- How can you show donors how to calculate the benefits of gifts of securities and other appreciated assets themselves in a few minutes?
- What are the best ways to take advantage of continued low interest rates in your fund development efforts?
- How can donors combine larger current and future gifts with a Roth IRA conversion?
- How can you use blended gifts to gain immediate income from bequest commitments?

If you have questions about how to register for "How to Win in 2010," please visit [www.sharpenet.com](http://www.sharpenet.com) or call 1-800-238-3253 to speak to a Sharpe representative.

# Make Plans Now for

Why is it increasingly important that nonprofits encourage year-end giving this year? There are a variety of reasons:

1. The majority of gifts to many nonprofit organizations and institutions are received in the final months of the year.
2. As the holiday season approaches and people begin considering gifts to family and friends, they tend to be more receptive to appeals from their charitable interests.
3. Tax motivations may encourage donors to make gifts before December 31 so they can deduct them on their 2010 tax return.
4. Donors are creatures of habit and often give at year-end because they are accustomed to doing so.

To assist you in reaching out to a broad range of donors this year-end, The Sharpe Group has created special brochures focused specifically on encouraging gifts before the close of the year. With

three titles and five designs, these straightforward brochures may be one of the most cost-effective ways to motivate and educate donors about maximizing their giving this fall.

Sharpe's year-end brochures point out the importance of gift timing and the tax advantages of certain charitable gifts, such as gifts of cash and stock. In addition, each brochure features references to the importance of reviewing estate plans at year's end, which may encourage future gifts as well.

These publications may be personalized with your logo and contact information on the front and/or back covers. In addition, you will receive a complimentary year-end marketing bundle that includes a cover letter, web/article copy, and reply card copy about giving before the close of 2010.

To view PDFs of the brochures, 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.



# a Strong Year-End

## Spotlight Benefits of End-of-Year Gifts With Top Donors

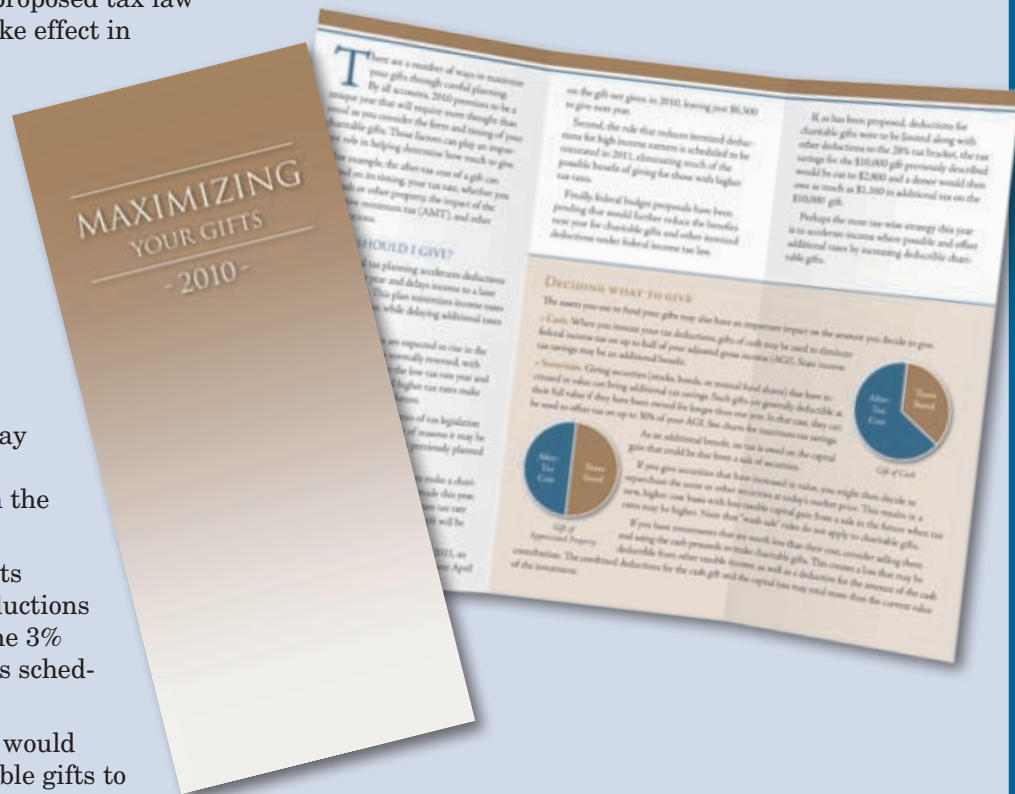
As mentioned on page 2, due to proposed tax law changes that are scheduled to take effect in January 2011, this fall it may be more important than ever to show donors how certain gifts completed before the end of the year could reduce their tax bill next April.

Tell your most affluent donors about how the following proposed tax legislation may make their gifts more attractive this year rather than next:

- For those who choose to delay their gift until 2011, additional taxes will be owed on the amount not donated.
- People in higher tax brackets may find their itemized deductions worth less in 2011 due to the 3% of AGI reduction rule that is scheduled to be reinstated.
- Proposals are pending that would limit deductions for charitable gifts to the 28% tax bracket.

You should not assume that the major donors among your constituency are aware of how they could maximize their giving and reduce their taxes by making gifts before the end of the year. Make plans to educate them well in advance of the close of 2010 about why it may be better not to delay their giving until 2011. Consider providing the top of your donor file with the informative piece titled **“Maximizing Your Gifts—2010.”**

To view “Maximizing Your Gifts—2010” in its entirety, visit [www.sharpenet.com/maximizing](http://www.sharpenet.com/maximizing). Or call a Sharpe representative at 1-800-238-3253 for ways you can incorporate this piece into your fall marketing strategies.



**Don't miss the chance to attend one of Robert Sharpe's upcoming speaking engagements:**

**Chicago Council on Planned Giving**

Chicago, September 14 [www.chicagocpg.org](http://www.chicagocpg.org)

**National Conference on Philanthropic Planning**

Orlando, October 14 [www.pppnet.org](http://www.pppnet.org)

**Minnesota Planned Giving Conference**

St. Paul, November 3 [www.mnpgc.org](http://www.mnpgc.org)

# Lifecycle . . . continued from page 1

form of smaller current gifts out of income because asset accumulation is still in its early stages.

People in this age range may seriously consider the need for a will or trust to provide for a surviving spouse or children. Those who are single may still rely on joint ownership or beneficiary designation. If a will is drafted, any charitable provision is likely to be either a relatively small specific bequest or a gift contingent upon some remote occurrence such as a disaster that may affect the entire family.

## Worth more dead than alive?

During their thirties and forties, many adults are earning more than ever before. As children grow older, it becomes more common for families to have multiple wage earners. Average net worth is still relatively low, but may begin to grow as savings and investments accumulate and debts are paid off.

The composition of wills done at this stage of life normally continues to focus on the needs of a surviving spouse or children. Those who are single or childless may shift the focus to parents, siblings, or nieces and nephews. For the most part, any charitable provision is still likely to be a relatively small specific bequest or one that is contingent on the premature death of one or more persons.

## Mid-life priorities

In one's mid-forties, fifties, and sixties, most people are likely to be at the peak of their careers and may be earning more than at any other point in their life. Those who have managed to accumulate any significant wealth are faced with multiple estate, gift, and financial planning considerations, most notably the need to provide for oneself and one's family. A small group may have sufficient income and assets to feel comfortable making or considering larger gifts now or in the future. A smaller subset of this group may even be in a position to consider a relatively larger specific bequest of \$25,000 or more.

Those in this age range who have a will or other estate plan in place are still in the minority, and charitable provisions for the most part remain contingent on the prior death of one or more parties. For example, a couple without children may have wills leaving everything to one another

## Getting to Know Your Donors

SharpeNet Data Services offers a quick, convenient, and affordable way to identify your best prospects and bring them into sharper focus. Sharpe's donor base file enhancement includes information on age, gender, marital status, and estimated income and net-worth rating. Turn to SharpeNet Data Services for the information you need to make the best use of your budget dollars. For details, call 1-800-238-3253.

but then to charity upon the death of the survivor or in the case of a common disaster. The number of people that would at least consider a charitable bequest may be large, but most decide against making a gift because they feel there are not yet enough assets to provide for family, friends, and charity.

## The later years

Most people retire in their sixties or early seventies. For many, their net worth has never been higher. Even though their net worth is at a peak or may continue to grow, after retirement the loss of earned income may affect an individual's ability to give the same amount to charity as before. In addition to the loss of discretionary income, family assets may need to last for two or three decades longer given today's life expectancies. Estate planning begins to take on a greater importance, and the number of persons who have a will, trust, durable power of attorney, and healthcare directives grows with each additional birthday.

Those who have adequately provided for their loved ones can now seriously consider including charities in their estate plans. As parents, grandparents, perhaps older siblings, spouses, or even children begin to pass away, the number of potential heirs decreases, which increases the chance that provisions will be made for friends and charities. IRS data and other studies show that the likelihood of a charitable bequest and the percentage of the estate left to charity both increase as

people age into their seventies, eighties, and nineties.

The most common candidates for charitable bequests are older persons who never married or had children. Couples without children or those whose children are well off are also good prospects. In the case of a couple, the operative last will and testament for charitable purposes is usually

drafted only after the death of a spouse. This final will is increasingly being drafted relatively late in life.

**Those devoting significant human or financial resources to encouraging estate gifts from younger and middle-aged donors are likely to be greatly disappointed.**

*Continued on page 7*

# Lifecycle . . . continued from page 6

## Fool's gold or the real thing?

In an ideal world with unlimited resources, charities should make their entire constituency aware of all of the various ways donors can support their work. However, in today's world of limited funds, those devoting significant human or financial resources to encouraging estate gifts from younger and middle-aged donors are likely to be greatly disappointed.

One national charity that has aggressively pursued such a strategy over the past decade while reducing the emphasis on older donors recently revealed that it had identified over \$1 billion in pending planned giving expectancies. While that figure sounds impressive, the charity's actual planned giving revenue has declined almost every year from the level reached in 2000. Had the charity focused limited resources on targeting their older donors first, it may have been able to simply maintain its previous level and would have received significantly more in actual planned giving revenue.

## Know your donors

By limiting the marketing of bequests to older donors who have both the incentive and the means to make a substantial estate gift in the short term, charities can feel secure they are making the best use of limited time and resources for maximum impact. For this reason, fundraisers should make an effort to discover relevant information about their donors, including age, marital status, and other important statistics. Without this information, it can be difficult to segment your donor base so that you know you are sending the most appropriate material to each potential donor.

Time is money. Make sure you are a good steward of your organization's time and money by making informed decisions.

*Note: This article was excerpted from the popular Sharpe seminar "An Introduction to Planned Giving."*

# Deductions . . . continued from page 2

pay the tax that would suddenly be owed on the \$9,000 that was donated.

As a result, for many donors the most tax-wise strategy this year will be to accelerate income where possible and offset the additional taxable income by increasing deductible charitable gifts.

Fundraisers may also wish to inform donors who have a history of encountering 30% and 50% of adjusted gross income limits on deductions that there is a possibility that AGI limits could make it difficult if not impossible to reap any possible benefit from delays.

For example, assume a person with an adjusted gross income of \$200,000 would like to give highly appreciated stock to fulfill an outstanding pledge commitment. He can deduct 30% of his AGI for 2010, or \$60,000. He decides to postpone his gift until next year after he reads an article online that suggests he may save more in income taxes by delaying the gift until 2011. Imagine his surprise when he is told next year that he can't double up and give \$120,000 in 2011 because, with no change in his AGI, he is still limited to the same \$60,000 he could deduct in 2010. In that case he will have lost forever the ability to take the \$60,000

deduction in 2010. In a 35% tax bracket, that amounts to \$21,000 in tax savings he will never enjoy. The same principle applies to donors subject to the 50% of AGI limit on gifts of cash.

As they say, an ounce of prevention is worth a pound of cure. It will be more important than ever this fall that donors understand that the choice of what to give can determine how much they can afford to give. But this year, the timing of gifts can also be an important key to making gifts in the most cost-effective ways.

For more on the benefits of giving in 2010, see "Year-End Giving Could Get a Lift From Political Tax Debates" by Holly Hall in the September 6, 2010, edition of *The Chronicle of Philanthropy*.

*Editor's note: This article is excerpted from the online presentation "How to Win in 2010, Tips and Techniques to Increase Giving," available for viewing on demand at [sharpenet.com](http://sharpenet.com). Sharpe is also pleased to offer a special end-of-year publication designed to help you communicate the ideas contained in this article to your constituents. See page 5 or [www.sharpenet.com/maximizing](http://www.sharpenet.com/maximizing) for more information.*



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## Sharpe Gift Planning Seminars

Development executives have relied on The Sharpe Group for premier training for over 40 years. If you would like to increase your awareness of gift planning techniques and help your program reach its full potential, consider attending the following Sharpe Gift Planning Seminars:

### September

An Introduction to Planned Giving

Washington, D.C.

September 13-14

### November

Integrating Major and Planned Gifts

Washington, D.C.

November 4-5

Registration is always limited to allow for more interaction between participants and instructors. Register early to ensure your spot.

For more details or to register, see page 3, call 1-800-238-3253 ext. 5313, or visit [www.sharpenet.com/seminars](http://www.sharpenet.com/seminars).