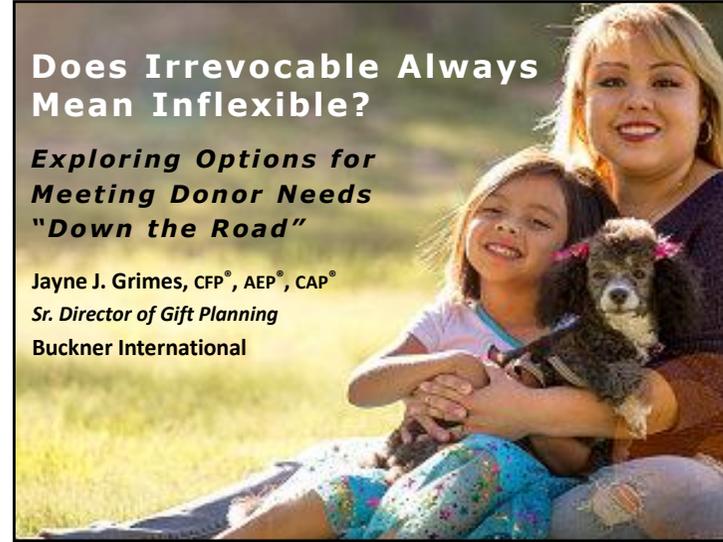




**Dallas Chapter of
Charitable Gift
Planners**

Nuts & Bolts Session
February 11, 2020
Sponsored by
Parkland Foundation

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**Does Irrevocable Always
Mean Inflexible?**

***Exploring Options for
Meeting Donor Needs
"Down the Road"***

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**Does Irrevocable Always
Mean Inflexible?**

***Exploring Options for Meeting Donor
Needs "Down the Road"***

Have you devised a perfect "permanent" charitable solution for your donor/client that ties everything together beautifully? Many times this involves **irrevocable split-interest gifts**, usually linked to the lifespan of the donor and a perception that they have no options for flexibility.

In reality, **early termination** of these gift plans is **becoming more common due to changes in health or personal circumstances**.

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**Does Irrevocable Always
Mean Inflexible?**

***Exploring Options for Meeting Donor
Needs "Down the Road"***

Greater awareness of these options can benefit both donors and the charities they support in two ways:

1. Existing Split Interest Gift donors can have broader planning options by not being permanently locked into the irrevocable gift parameters.
2. Prospective Split Interest Gift donors might be reassured by knowing there is a possibility they may modify their gift if the circumstances allow.

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Gift Planning: *Defined*

- The process of working closely with donors to integrate their *charitable objectives* to their *financial objectives* in such a way that provides benefits to both the charity and the donor

“Donor-Centered Philanthropy”

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Gift Planning

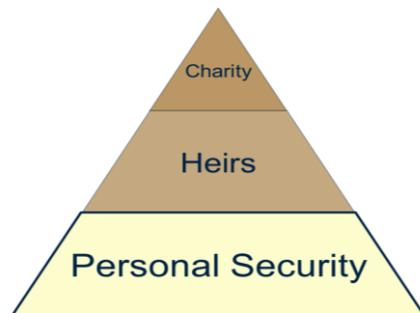
Who Is This Donor?

- **Older** – generally age 65+ when making gifts through planned gift vehicles
- Often **single**, or **have no children**
- Financially secure (**not necessarily “wealthy”**)
- A **consistent giver** over time
- **Strong supporter** of your charity– though **gifts could be small** to this point
- Some of them **may never be on your radar screen**

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Gift Planning

What Are The Donors' Priorities?



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MAJOR CHANGES IN ESTATE TAX LIMITS SINCE 1997*

1997	\$600,000	55%
2001	\$675,000	55%
2002	\$1,000,000	50%
2004	\$1,500,000	48%
2006	\$2,000,000	45%
2009	\$3,500,000	45%
2010	\$5,000,000 (or \$0)	35% or 0%
2018	\$11,180,000	40%
2019	\$11,400,000	40%
2020	\$11,580,000	40%

* These rates will adjust for inflation and max out in 2025; then revert in 2026 back to \$5MM (adjusted up for inflation).

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Gift Planning – Three areas

1. Outright Gifts
2. Deferred Gifts
3. **Split Interest Gifts**

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COMMON TYPES OF SPLIT-INTEREST GIFTS TO CHARITY

- Retained Life Estate
- Charitable Gift Annuity
- Charitable Remainder Trusts
- Charitable Lead Trust

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Gift Planning – Split Interest Gifts



**The “FRUIT” –
Income Produced
(or use of the asset)**



**The “TREE” –
The Asset Itself**

Insist that your donor seek tax and legal advice when making these gifts!

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Gift Planning – Split Interest Gifts



**Benefits NOW –
Current Income or
Benefit to Donor(s)**



**Benefits LATER –
Gift to Charity**

Insist that your donor seek tax and legal advice when making these gifts!

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Gift Planning

Retained Life Estate



Benefits NOW – Life Estate

- Right to live in residence for life
- **Immediate Income Tax Deduction based on actuarial calculation**



Benefits LATER – Life Estate

- House deeded to charity when donors pass away

Insist that your donor seek tax and legal advice when making these gifts!

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Gift Planning

Gift Annuity



Benefits NOW – Gift Annuity

- Lifetime Income Stream to Designated Beneficiary*
- **Immediate Income Tax Deduction based on actuarial calculation**



Benefits LATER – Gift Annuity

- Future gift to charity when income beneficiary* passes away

**one or two beneficiaries*

Insist that your donor seek tax and legal advice when making these gifts!

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Gift Planning

Charitable Remainder Trust



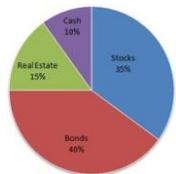
Benefits NOW – CRT

- Lifetime Income Stream to Designated Beneficiaries*
- **Immediate Income Tax Deduction based on actuarial calculation**

Benefits LATER – CRT

- Future gift of Trust assets to charity when it matures

(FYI - Charitable Lead Trust benefits are the opposite)



**one or more beneficiaries*

Insist that your donor seek tax and legal advice when making these gifts!

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CHARITABLE REMAINDER TRUSTS

The "Perfect Plan" in the days of low estate transfer limits

- Philanthropic intent was not always the primary goal
- In the "perfect" situation, a Charitable Remainder Trust + Wealth Replacement (Life Insurance) strategy could:
 - eliminate/defer capital gains and estate taxes, in addition to providing an immediate tax deduction
 - provide essentially the same net benefits (or more) to heirs, *if one or more of the donors was insurable*
 - increase lifetime income for the donors and
 - provide a charitable legacy
- It also served to put charitable estate planning into more mainstream advisor conversations with their clients

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CHARITABLE REMAINDER TRUSTS

- Payments to one or more beneficiaries for life or term of years
- Remainder passes to charity
- Two types:
 - Charitable Remainder Annuity Trust (CRAT): donor retains an income interest that is either a fixed dollar amount or a fixed percentage (no less than 5%) of the initial fair market value of the trust.
 - Charitable Remainder Unitrust (CRUT): donor retains an income interest that is a fixed percentage (no less than 5%) of the trust assets, as revalued annually.

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CHARITABLE REMAINDER TRUSTS

Taxation of CRTs

- Partial charitable deduction for donor
- The trust, itself, is exempt from federal income tax
- May accumulate income in excess of distribution amounts
- Can sell appreciated assets held in the trust without incurring capital gains tax



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EARLY TERMINATION OF CRTS

- Surrender income interest to charity
- Lump sum distributions to all beneficiaries
- *Why would a donor want to forfeit these benefits?*



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SURRENDER INCOME INTEREST TO CHARITY

Full acceleration of remainder interest

- Life income beneficiary gives his/her interest to charitable remainderman
- Life income beneficiary entitled to charitable deduction
- All trust assets pass to charity as if trust term had ended
- IRS approved this approach in Rev. Rul. 86-60, 1986-1 C.B. 302

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LUMP SUM DISTRIBUTIONS TO ALL BENEFICIARIES

- All parties agree to terminate
- Trustee determines value of life-income and remainder interests
IRC § 7520; Reg. § 1.664-4
- Lump sum distributions made to all parties

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LUMP SUM DISTRIBUTIONS TO ALL BENEFICIARIES

PLR 200324035, IRS determined this approach did not constitute self-dealing or trigger termination tax, as long as:

1. State law allows early termination
2. All parties agree
3. Valuations determined using Treasury Regs.
4. Physician determines that life expectancies are not shorter than average
5. Income beneficiaries affirm physician's determination

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LUMP SUM DISTRIBUTIONS TO ALL BENEFICIARIES

- Treated as a sale of life interest to the charitable remainderman
- Income beneficiaries taxed at capital gains rates on amounts received
- Basis is disregarded under *IRC § 1001(e)* and full proceeds are subject to tax

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LUMP SUM DISTRIBUTIONS TO ALL BENEFICIARIES

- Other considerations
 - Irrevocably designate charitable remainderman, if not already done
 - Spouses must assign survivorship interests back to each other
 - Notice to Attorney General

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EARLY TERMINATION OF LIFE ESTATE

The "WHY?" – for Sam and Mary

Sam and Mary gave their sprawling 8-bedroom home in their small town to Buckner with the desire that it become a foster care home. With 5 children of their own, they had adopted 2 through Buckner many years ago and enlarged their home.



Age (88 and 89 years old) and health issues have impacted their lifestyle.

They decided to move into a senior living facility nearby and sell their home so they wouldn't be a burden to their kids. They have supported and loved Buckner for decades.



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EARLY TERMINATION OF LIFE ESTATE

Split-Interest Ownership History of Property Being Sold

Sam and Mary Sherman - Final Net Proceeds from Home Sale

Sales proceeds	\$202,993		
Detail for Split Property Ownership Interest:			
		Sam & Mary	Buckner
Present Value of Buckner's Future Interest	72.484%		\$ 147,137
Present Value of Sam and Mary's Retained Interest	27.516%	\$ 55,856	
FINAL split of proceeds		\$ 55,856	\$ 147,137

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EARLY TERMINATION OF LIFE ESTATE

The "Purpose" – for Sam and Mary's GIFT

Although Sam and Mary graciously gave up their dream of a foster care home in their former residence, they were thrilled to learn that the proceeds from the sale will be used right in their backyard.



Buckner had received an unexpected \$1MM+ estate gift the previous year, with the specific directive to "build a facility to serve children and families in Lubbock". While the funds were enough for construction costs there was no budget for operations.

Thanks in part to Sam and Mary's gift, the new Buckner Family Hope Center in Lubbock was able to open its doors right on schedule!



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EARLY TERMINATION OF LIFE ESTATE

The "WHY?" – for Annie

In 2011, at age 75, Annie gave a 1/3 portion of her beloved country home near the Brazos River to Buckner to use as a spiritual retreat. Her ultimate goal was to give the other 1/3 portions in the coming years.



In 2015, she felt less financially secure and decided to give her 1/3 gift as a future interest.

She is in very good health for her age but has no family to care for her in the future. Annie has supported, traveled with and loved Buckner for many years.

In 2018 she decided to move out of her Dallas townhome into a senior living facility with close friends. To do so, she needed funds from the sale of the country home.



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EARLY TERMINATION OF LIFE ESTATE

Annie - Distribution of Final Sale Proceeds			
Details for 3 Segments of Ownership on this Property		ANNIE PROCEEDS	BUCKNER PROCEEDS
1	Annie 1/3 share	\$ 87,533	\$ 87,533
2	Buckner Foundation 1/3 share	\$ 87,533	\$ 87,533
3	Remaining 1/3 share breakdown	\$ 87,533	
	Present Value of Buckner's Future Interest	75.7%	\$ 66,262
	Present Value of Annie's Retained Interest	24.3%	\$ 21,271
	Net Proceeds- per Ownership Interest	\$ 108,804	\$ 153,795
	OVERALL Percent of Net Proceeds to Buckner		58.6%
	OVERALL Percent of Net Proceeds to Annie	41.4%	

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EARLY TERMINATION OF LIFE ESTATE

The "Purpose"- for Annie's GIFT

Raising funds for the Buckner Family Hope Center at Bachman Lake has been a strategic initiative since 2016. A successful campaign has been underway since that time and a key element to qualify for funding from major foundations is early financial commitment from others.

Annie's "now" gift could not have come at a better time for this project. It was essential to meet early benchmarks that allowed us to approach sophisticated donors and foundations, which allowed us to meet our goal for construction.

Annie has visited the site and is very excited to be part of our grand opening in the spring of 2020, right in her own town. She is living happily in her new home with her "old" friends!



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QUESTIONS & DISCUSSION

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Thank you!

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