Types of Planned Gifts and the Benefits

For those who have an interest in contributing a charitable gift, but also have a need for the assets they intend to contribute, either for current income to live on or to leave to heirs, planned gifts offer a good solution.

Planned gifts are essentially split interest gifts; both the donor and the charity benefit. The only entity left out is the Internal Revenue Service. Potential heirs, who may receive less depending on the type of plan executed.

While some planned giving options are practical only for people who give $100,000 or more, other options, such as gift annuities and pooled income funds are often used by donors contributing as little as $10,000.

Planned gifts offer the donor many of the same benefits that an outright gift to a charity provides, such as:

- Charitable tax deduction;
- Avoidance of capital gains tax on appreciated property, securities and collectibles;
- Removal of assets from potential Federal estate taxation;
- Control of where your estate's "social capital" is used;
- Personal satisfaction in supporting a worthy cause; and
- Recognition for your charitable support while living.

The types of planned gifts listed below are representative of the ways to make split interest gifts to a charity. Professional advice from an attorney, financial planner or tax advisor should be sought before you establish a planned gift.

Charitable Remainder Trust: A donor's gift is placed in a trust managed by a designated trustee. Many banks and investment firms provide this service. The donor or a person the donor has named receives a specified sum at set intervals from the trust - usually quarterly. When the beneficiary dies, or after a predetermined number of years, what remains in the trust (the "remainder") goes to the charity for its tax-exempt charitable activities. The annual payments a donor receives fluctuate according to the type of trust. The donor receives a charitable deduction in the year of the gift for the present value of the remainder interest. This is determined using IRS tables. The ADA Foundation can provide a personalized example for you upon request.

An annuity trust pays the same fixed dollar amount every year. This yearly amount is determined when the trust is established and must be at least 5 percent of the initial fair market value of the trust's assets.

A standard unitrust pays a variable amount each year. The amount is equal to a predetermined percentage of the annual fair market value of the trust.

A net income unitrust also pays a variable amount each year. The amount is equal to the annual net income produced by the trust, or a predetermined percentage of the total assets, whichever is smaller. (With proper trust provisions, payments may be increased in some years to make up for earlier years when net income was lower than the predetermined percentage.) One advantage of the unitrust is that, under this arrangement, the charity can choose to receive non-income-producing assets such as real estate, sell it in due course, and reinvest the proceeds without incurring capital gains tax or the loss of anticipated income to the donor.

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A net income makeup charitable remainder unitrust (NIMCRUT) - Trust makers who wish to defer income may find a NIMCRUT a good charitable trust to use. A NIMCRUT, especially when invested in a well-designed variable annuity, allows a trust maker to defer income until needed. A NIMCRUT can also maximize the amount of the ultimate charitable distribution, because it allows tax-deferred accumulation.

Charitable Lead Trust: The donor establishes a trust and makes the charity the beneficiary for a specified length of time. During that time, the institution receives regular income from the trust. The payout to the Foundation depends on how the trust is structured (annuity trust or unitrust). When the elected period is up, the trust assets revert to the donor, or pass to someone designated by the donor (often an heir). The donor receives a charitable deduction in the year of the gift.

Pooled Income Fund: A gift is pooled with other contributors' gifts in an investment fund, similar to a mutual fund. The donor receives a proportionate share of the fund's annual earnings for life. The income will vary depending on how much the fund earns and the number of units the donor holds in the pool. The donor receives a current charitable deduction at the time of the gift.

Life Insurance: Whole life and universal life policies, but not term policies can be given to a charity. The charity may be named as the policy owner with the donor making policy premium payments to the charity. These payments are tax deductible to the donor. When life insurance is combined with the use of other planned devices, such as charitable remainder trusts, additional benefits may accrue to the donor's family. Extra income earned by the charitable remainder trust or income tax savings realized by the gift's charitable deduction are used to purchase insurance that is placed in an Irreversible Life Insurance Trust (ILIT). As long as the donor has no incidents of ownership in the insurance policy, it will be excluded from Federal estate taxation and pass to the beneficiaries at full face value.

Q. Is any additional information available from the ADA Foundation?

A. Yes, we would be pleased to provide you with specific information tailored to assist you in reducing your estate and/or income tax burden through a planned or outright gift to the ADA Foundation. Please feel free to call us at 312-440-4717 to discuss the options that may be suited to your estate planning needs and objectives.

For additional information, please contact the ADA Foundation at the address below.