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## Introduction

Through planned giving, a donor can leave money or assets to the Church at his or her death, or invest money so that the donor receives benefits during his or her life and then bequeaths the remaining funds to the Church. A variety of different types of assets can be utilized to make a planned gift, including:

- Cash
- Appreciated marketable securities
- Qualified retirement account assets
- Real Estate
- Insurance policies
- Tangible assets
- Business interests

Although planned giving vehicles can be a complex program of various financial instruments, planned giving can be adapted to each donor's needs. It encompasses a variety of philanthropic strategies that help a donor provide for the Church while also advancing their own financial and personal objectives. Planned giving integrates personal, financial and estate planning goals with lifetime or testamentary charitable giving. The incentives a donor has in making a planned gift include:

- Increasing income
- Reducing income and/or estate taxes
- Avoiding or reducing capital gains tax
- Passing on assets to family at a reduced tax cost.
- Making significant contributions to the St. Cornelius.

This Planned Giving Guidebook is offered as a working reference tool for St. Cornelius Church, summarizing the various methods of planned giving recommended to those considering a planned gift to the Church. It outlines the benefits and incentives of a specific planned giving vehicle, and providing an opportunity for charitable giving in circumstances that may not otherwise allow a donor to make a gift to the parish.

*The information provided in this outline is offered to help donors better understand the various methods of Planned Giving available for giving to St. Cornelius Church. It is not intended as, nor is it substitute for, legal advice. Because St. Cornelius Church is a non-profit organization recognized by the Internal Revenue Service, donors may receive a tax benefit by making a gift to the Church. Please consult your tax advisor for specific advantages.*

## Bequest

A **Bequest** is a gift to charity at death. A bequest is the simplest type of planned gift to make and one of the easiest to implement. Cash, securities, real estate or personal property can be

given to St. Cornelius Church and the Campaign through a will or trust. This may permit a donor to fund a more substantial bequest in support of St. Cornelius. Many people desire to benefit the Church but are unable to donate cash, securities, real estate or personal property while they are alive. However, if a donor finds that they would like to include a bequest in their gift to St. Cornelius Church, they may want to consider these options.

- Cash Bequest – The Church receives a specific dollar amount
- Bequest of Property – The Church receives specific assets, such as securities, an interest in real estate (such as a residence), or tangible personal property (works of art, antiques).
- Residuary Bequest – The Church will receive all or a percentage of the remainder of a donor's estate after the payment of any specific bequests and all estate related expenses.
- Testamentary Trust – A donor's trust provides one or more heirs with income for life, or a term of years, or both, after which the assets pass to the Church.
- Retirement Plan – St. Cornelius Church is designated as a beneficiary of a donor's IRA, Keogh, tax-sheltered annuity, qualified pension or profit-sharing plan.
- Testamentary QTIP Trust – A donor's trust provides income, and principal if needed, to donor's spouse for life, after which the assets pass to St. Cornelius Church.
- Contingent Bequest – The Church is given a bequest only in the event of death of a donor's other beneficiaries.

#### **Benefits of a Bequest:**

- Assets remain in the donor's control during his or her lifetime
- A donor can modify the bequest if their circumstances change
- A bequest can be directed to a specific area
- A bequest is currently deductible for federal estate tax purposes, and there is no limit on the amount of the estate tax charitable deduction
- Bequests generally are not subject to state inheritance or estate taxes. In a large estate, the savings currently may be more than half of the value of the bequest to St. Cornelius Church.
- Most importantly, a bequest provides the donor with the ability to leave a legacy with no immediate personal financial impact.

#### **Example:**

*John Smith has an estate of \$5,000,000, and he is a longtime supporter of St. Cornelius Church. At his death, John wants to give his estate to the parish. John can include a charitable bequest in his will or revocable living trust to accomplish his giving goals. For instance, John's attorney could simply include a specific \$5,000,000 charitable bequest provision in John's will. By doing so, the Church will receive \$5,000,000 from John's estate. John's estate will also enjoy some estate tax savings. Because of the charitable bequest provision, John's estate will be entitled to a \$5,000,000 estate tax charitable deduction. This scenario is for illustration only and is based on the information in the example. Actual benefits may vary and will depend on the IRS discount rate in the month when the gift annuity is created. This information should not be considered legal, accounting, or other professional advice.*

## Charitable Gift Annuity

A **Charitable Gift Annuity** is a simple contract which requires St. Cornelius Church to make fixed payments to the donor (and an optional second beneficiary) for life, in return for the donor's contribution. The gift annuity offers a donor the assurance of receiving annuity payments that will not fluctuate, and that are payable from all the assets of St. Cornelius Church.

### **How a Charitable Gift Annuity Works:**

With an immediate payment gift annuity, a donor begins to receive quarterly annuity payments right away. With a deferred payment gift annuity, the donor's annuity payments begin at a future date that the donor specifies. Because payments are deferred, the donor receives a higher annual annuity payment, which may be used as a source of retirement income for the donor. Typically, a gift annuity is established with an irrevocable gift of cash or marketable securities. The annuity beneficiaries for both immediate and deferred gift annuities must be at least 60 years old when annuity payments begin.

### **Benefits of Charitable Gift Annuity:**

A charitable gift annuity offers a donor three distinct tax benefits:

- In the year when the gift annuity is created, the donor will receive a one-time **income-tax** charitable deduction based on the fair market value of the assets the donor contributes, minus the present value of the annuity interest the donor retains (see the example below for more details).
- If a donor funds a charitable gift annuity with appreciated securities, the donor does not recognize the full amount of any capital gain in the year the gift annuity is funded. Instead, the donor's capital gain will be divided equally over the donor's life expectancy and the donor will only recognize a portion of the capital gain each year.
- Part of each annuity payment will be considered the tax-free return of a donor's principal.

*(Please note that if the donor lives beyond his or her life expectancy, the entire annuity payment will be taxed as ordinary income.)*

Many younger donors create a series of deferred gift annuities over multiple years, jointly timed to begin making annuity payments when they retire. To fund such deferred gift annuities, donors use assets they've already designated for retirement savings. Their deferred gift annuities give them an income tax deduction when they most need it and an additional source of cash during their retirement years. In addition, deferred gift annuities allow the Church to offer a donor a higher annuity rate and give the donor a larger charitable deduction.

### **Gift Annuity Example:**

*Jane Smith, age 70, transfers \$1,000,000 to St. Cornelius Church to create a gift annuity. As a result, Jane will receive an annuity of \$61,000 ( $\$1,000,000 \times 6.1\%$ —the annuity rate for her age).*

#### **Summary:**

- Gift Amount: \$1,000,000
- Payment Rate: 6.1%

#### **Benefits:**

- Charitable Deduction: \$398,800
- Annual Payment: \$61,000
- Tax Free Portion: \$37,820
- Ordinary Income Portion: \$23,180
- IRS Discount Rate: 4.2%

After 15.9 years, the entire annuity becomes ordinary income. Partial payments for the year of the gift will depend on the timing of the donor's gift.

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### **Deferred Gift Annuity Example:**

*Jane Smith, age 70, transfers \$1,000,000 to St. Cornelius Church for a deferred gift annuity. She will receive a guaranteed annual income of \$63,000 ( $\$1,000,000 \times 6.3\%$ —the annuity rate for her age).*

#### **Summary:**

- Gift Amount: \$1,000,000
- Payment Rate: 6.3%

#### **Benefits:**

- Charitable Deduction: Approximately \$398,380
- Annual Payment: \$63,000
- Tax Free Portion: \$36,036
- Ordinary Income: \$26,964
- IRS Discount Rate: 4.2%

After 16.7 years, the entire annuity becomes ordinary income. If you are a resident of New Jersey or New York, the annuity amount may be less than the amount shown above.

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A **Charitable Remainder Annuity Trust** is a separately invested and managed trust that pays a donor, the donor's spouse, and/or other beneficiaries a fixed annuity amount for life or a term of years. After the annuity trust terminates, the accumulated principal or "remainder interest" goes to St. Cornelius Church. In the year when the Charitable Remainder Annuity Trust is created, the donor receives a charitable income tax deduction in an amount equal to the present value of the charitable interest that will pass to St. Cornelius. No additional gifts are permitted.

### **How A Charitable Remainder Annuity Trust Works:**

The annuity trust pays the donor and/or another designated beneficiary a fixed annual income (in quarterly installments), based on a percentage of the initial fair market value of the trust assets. Depending on the funding assets and investments, the trust may pay the donor tax-free income. Typically, an annuity trust is established with St. Cornelius Church's bank. In most instances, cash or publicly traded stocks and bonds fund an annuity trust. It is required by the IRS that the term of the trust be no more than 20 years. In many instances, the donor's trust is invested and administered by the St. Cornelius's bank and the donor may designate the future use of the gift in support of published objectives for the parish. Should the donor choose to establish the trust at another financial institution, the Church will assist in the creation of the trust.

### **Benefits of a Charitable Remainder Annuity Trust:**

- Receive stable, predictable income (appealing to older donors and income beneficiaries).
- Avoid all upfront capital gains tax on any appreciated assets the donor transfers to the annuity trust.
- Receive all or partly tax-free income if the annuity trust is invested for that objective.
- Reduce the donor's estate tax liability by removing a large taxable asset.
- Make a satisfying and substantial gift to St. Cornelius Church during your lifetime.

### **Example:**

*John Smith, 68, transfers \$2,000,000 to create an annuity trust that will pay him with life income payments at a 6% payout rate. He will receive \$120,000 per year for life. Any income earned by the trust in excess of the \$120,000 fixed payment is reinvested.*

## Summary:

- Gift Amount: \$2,000,000
- Payment Rate: 6%

## Benefits:

- Charitable Deduction: \$744,400
- Annual Payment: \$120,000
- IRS Discount Rate: 4.2%

## Warning:

IRS Revenue Ruling 77-374 denies a charitable deduction where an annuity trust has greater value than 5% chance of corpus exhaustion.

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A **Charitable Remainder Unitrust** is a separately invested and managed charitable trust that pays a percentage of the principal, re-valued annually, to a donor, the donor's spouse or other income beneficiaries for life or a maximum term of 20 years. After the Unitrust terminates, the accumulated principal or "remainder interest" goes to St. Cornelius Church and will be deposited into St. Cornelius's bank. In the year when the **Charitable Remainder Unitrust** is created, the donor receives a charitable income tax deduction for a portion of any gift the donor makes to the trust.

## How A Charitable Remainder UniTrust Works:

The Unitrust pays the donor a variable income, based on fixed percentage of the trust assets as revalued once each year. Typically, the fixed percentage is between five and seven percent. One of the advantages of the Unitrust is that the donor's income may increase as the trust principal grows over time. A variety of assets may be donated to a trust, including cash, publicly traded stocks and bonds, real estate and, in some instances, tangible personal property such as works of art. Income beneficiaries must be at least 50 years old.

## Benefits of Charitable Remainder Unitrust:

**Flexibility** is the most distinct advantage of the Unitrust. The most flexible life-income plan, a Unitrust is a powerful vehicle for benefiting a donor, the donor's heirs and St. Cornelius Church. The donor can use almost any asset to fund a Unitrust, including cash, publicly traded stocks and bonds and real estate. A donor can tailor their Unitrust to meet many financial or estate planning goals. The donor can choose to receive income beginning immediately or the donor could defer most of their income to a future time. If the donor is relatively young and insurable,

they can even use some of the income or tax savings produced by their plan to purchase a life insurance policy that replaces the gift and flows to the donor's heirs outside of the estate (this is called "wealth replacement"). St. Cornelius Church can help a donor fashion the right Unitrust to achieve their goals.

### **Additional Advantages:**

- Receive a charitable income tax deduction for a portion of the donor's gift.
- Avoid all upfront capital gains tax on any appreciated assets transferred to the Unitrust.
- Reduce the donor's estate tax liability by removing a large taxable asset.
- Increase the donor's income over time if the value of the Unitrust grows (particularly appealing to younger donors and income beneficiaries).
- A donor has the satisfaction of making a substantial gift to St. Cornelius Church during the donor's lifetime.

### **Example:**

*John Smith, age 72, wants to make a gift that will ultimately be used to support Catholic Education, which he has supported for years, but he is also concerned for his children and their futures. He creates a 6 percent **Charitable Remainder Unitrust** for \$2,000,000, which yields a tax savings to him of \$1,020,580. He can then purchase a whole life insurance policy that will maintain his children's inheritance. John will pay the annual premium costs for the first three years from his tax savings and subsequently with the increased income from his trust.*

### **Summary:**

- Gift Amount: \$2,000,000
- Payment Rate: 6%

### **Benefits:**

- Charitable Deduction: \$1,020,580
- First Year's Income (future income will vary with trust value): \$120,000
- IRS Discount Rate: 4.2%

*These calculations are for illustration only and are based on the information in the example. Actual benefits may vary and will depend on the IRS discount rate in the month when the gift annuity is created. This information should not be considered legal, accounting, or other professional advice.*

The **Charitable Lead Trust** allows a donor to make a future transfer of assets to the donor's heirs (or other beneficiaries) at a substantially reduced gift and estate tax cost, while providing an income stream to St. Cornelius Church for a term of years. During specific number of years, a fixed or variable income is paid to the Church, depending on the type of trust the donor creates and deposited into the St. Cornelius bank account. At the end of the trust term, the assets are passed to the donor's heirs, or to a trust for their benefit.

## How a Charitable Lead Trust Works:

The donor receives a charitable gift tax deduction for the present value of the annual income payments to St. Cornelius Church during the trust term. This deduction may significantly reduce the gift and estate tax liability resulting from the transfer of the assets in the trust to the donor's heirs. Any appreciation of the trust assets over the trust term is not subject to gift or estate tax. Although the Tax Relief Act of 2001 may impact the long-term application of the lead trust, this type of gift arrangement may continue to have value as a planning tool. A donor can establish a Charitable Lead Trust with publicly traded securities or other assets. To receive the most favorable capital gains tax treatment, it is recommended that the donor fund the trust with cash or not highly-appreciated assets. Typically, a Lead Trust is most effective for high-net-worth individuals who wish to fund the trust with assets of significant value.

### **Example:**

*John and Jane Smith want to contribute \$5,000,000. They placed a sufficient amount of income-producing commercial property into a **Charitable Lead Trust** that would make annual payments of \$500,000 over ten years. This will provide the "Campaign Fund" with \$5,000,000 in total and after ten years, the remaining assets and any growth will pass to the donor's heirs. Because the gift tax deduction and the amount subject to gift tax is determined at the time the assets are contributed to the **Charitable Lead Trust**, any appreciation of the assets that takes place during the term of the trust is not subject to additional gift or estate tax.*

### **Summary:**

- Gift Amount: \$5,000,000
- Payment Rate: 10%

### **Benefits:**

There may be an income tax deduction when a donor creates a charitable lead trust. However, the donor's gift or estate tax is greatly discounted and any growth is passed to their heirs gift and estate **tax free**. It is one of the only transfer devices currently used that can discount the value of the original assets and result in little or no taxes. At the same time, the donor fulfills their charitable desires to the St. Cornelius Church.

- IRS Discount Rate: Variable

The gift and estate tax deduction on the original transfer of assets is an Internal Revenue Service calculation based on the fair market value transferred, minus the present value of the income stream to charity. The longer the term, the greater the deduction.

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Many donors are unaware that they can use their retirement plans to make a gift to St. Cornelius Church. Using these funds can often be a most effective estate planning strategy. Most donors have no idea that their retirement plans, including IRA's, Keoghs, and 401(k)s, and nonqualified deferred compensation, may currently owe income, federal and state real estate taxes. These taxes can currently consume 75 percent of the assets in those plans. This tax hit makes retirement plans one of the worst assets to leave children, but one of the best vehicles for giving to the Church. Many donors will choose to make their bequests with funds from IRA's and other retirement plans, for an important reason. Even with a reduced or eliminated estate tax, income taxes will still have to be paid on the retirement funds passed down to the donor's children. By giving these funds to St. Cornelius Church and directing other assets to the donor's family, the donor may receive significant tax benefits while helping to ensure the future of St. Cornelius through their gift to parish.

**Example:**

*John Smith has an estate of \$2,000,000, which includes an IRA of \$200,000. John is a longtime supporter of St. Cornelius Church and, therefore, he wants to give 10% of his estate to the Church. John is thinking about including a charitable bequest in his will to accomplish his giving goals. Accordingly, at his death, his estate would distribute \$200,000 to the Church.*

*John is in poor health and wants to implement this goal as quickly as possible. John can simply fill out a new IRA beneficiary designation form listing St. Cornelius Church as the primary beneficiary of his \$200,000 IRA. It is important to remember that the beneficiary form—not John's will—controls the final disposition of John's IRA. The transfer of John's IRA to St. Cornelius at his death is also great from a tax standpoint. If left to John's family, the IRA is subject to both estate and income tax, which could be extremely high. However, if left outright to the Church, the IRA will not be subject to estate or income tax. Therefore, 100% of the IRA balance at John's death would be distributed to St. Cornelius Church. The rest of John's "good assets" will pass to his children. Accordingly, John takes care of his family financially while at the same time establishing an endowment to benefit St. Cornelius in perpetuity. Based upon all of these positives, John completes a new beneficiary designation form naming St. Cornelius Church as the 100% primary beneficiary. His IRA will benefit the Church for many years. Additionally, from a tax standpoint, this solution is very effective since no income or estate tax will ever be paid on the IRA balance.*

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With a **Pooled Income Fund**, the donor can contribute to St. Cornelius Church and receive lifetime income in return. Similar to mutual funds, these are trust funds in which the donor's gift is combined with others, and the donor is assigned units in the fund. The donor receives a prorated share of the variable income earned by the fund each quarter. The annual yield and quarterly income payments vary from year to year. The donor may also provide income to the donor's spouse and/or another individual designated by the donor. On the death of the surviving beneficiary, a pro rata share of the pooled income fund's principal is removed from the fund and distributed to St. Cornelius Church in accordance with the purpose specified by the donor. An immediate federal income tax deduction can be received by the donor for a portion of the gift to St. Cornelius Church. With a gift of appreciated property, the donor can avoid longterm capital gains tax as well as realizing significant estate tax relief.

**Example:**

*John Smith's \$5,000,000 life income gift is invested in our pooled income fund. The fund's net income is 4.3 percent this year, so he receives \$215,000—his share of the annual earnings. Each year, Mr. Smith's payment will reflect any increase or decrease in the fund's net income.*

**Summary:**

- Gift Amount: \$5,000,000
- Payment Rate: 4.3%

**Benefits:**

- Charitable Deduction: \$2,929,550
- First Year's Income (future income will vary with fund earnings): \$215,000

*These calculations are for illustration only and are based on the information in the example. Actual benefits may vary and will depend on the IRS discount rate in the month when the gift annuity is created. This information should not be considered legal, accounting, or other professional advice.*