Types of Planned Gifts

Cash - Easiest and most portable

Appreciated securities - Used to prevent capital gains tax issues for donors and/or estates. Tax deduction is same as cash based on market value. In most cases, gifts of securities are sold immediately to convert to cash by the nonprofit.

Real estate – use caution when accepting gifts of real estate. There can be encumbrances such as back taxes, or contamination from commercial uses which would incur significant costs to remediate. Sometimes, donors will make the gift conditional on living in the property until death at which point it would transfer to the nonprofit.

Retirement Accounts - The balance remaining in a retirement account after death is subject to double taxation if it passes to heirs: it's taxed both as income and as an estate asset. Over 75% of the account value may go to taxes. A better option is to designate one or more nonprofits to receive any remaining funds and it's very simple to designate beneficiaries through the company that manages the account.

Appreciated Personal Property – Includes books, artwork, vehicles, collections, equipment, an interest in a business, shares of closely held stock, or a limited partnership share are all examples of this type of gift. Again, caution is needed to assess whether this type of gift has real value for your organization or may have some undesirable consequences should you accept it. An example might be artwork that turns out to be stolen, or artifacts made of ivory which is no longer legal to own in the USA.

Charitable Gift Annuity – a relatively simple form of investment gift. In return for the gift, the beneficiary gets fixed income for life. The income rates and the charitable deduction tend to be higher with a gift annuity than with other life-income gifts. There is also an attractive reduction in the taxation of annuity payments. Limited to two individuals receiving the fixed income.

Deferred gift annuity - delays the inauguration of income payments to the beneficiaries. In return for this delay, the deferred annuity increases both the income rate and the charitable deduction above those of an annuity starting income payments immediately.

Charitable remainder annuity trust - Another option for a donor seeking fixed income. The annuity trust is an individually managed trust that provides a bit more flexibility. However, its management costs often produce a lower income rate than a gift annuity and requires a larger initial gift. However, the annuity trust does have several advantages. It can pay income to multiple beneficiaries, while the gift annuity is limited to two individuals. It can pay income for a term of years (up to 20) while a gift annuity can only pay for life. Under certain circumstances an annuity trust can pay all tax-free income, especially if it was funded with tax-free securities.

Charitable remainder unitrust is the most flexible life-income gift, and it also pays variable income. The amount received by beneficiaries is based on a fixed percentage of the value of the principal, which is revalued annually. Income in excess of the unitrust amount is reinvested, so that the unitrust's income rate can be applied against an increasing principal over time. The unitrust can pay multiple beneficiaries and can pay income for lifetime or a term of years. Like the annuity trust, the unitrust is individually managed and requires a larger gift to make the management feasible. A special feature of the unitrust is the ability to grow principal over time, then reinvest for income, with no capital gains cost. This feature, explained in the text, allows the fund to build for later needs.

Charitable Lead Trust - works in reverse from the life-income gifts. The gift is placed in a trust that pays income to the nonprofit for a term, then returns the principal to the donor or donor's heirs.

The lead trust is a very effective tool to remove a portion of an estate from tax liability:

- If the assets are to pass to the heirs, any growth in the principal after the trust was inaugurated is exempt from estate tax.

- Further, the amount subject to tax is reduced by the value of the nonprofit's income interest.