Planned Giving Q & A

A fund at the Community Foundation of the Holland/Zeeland Area is a qualified recipient of any type of deferred giving plan.

How can my client provide for their children and charity in their estate plan?

One of the difficult considerations for many charitably inclined individuals when engaging in estate planning is the question: "How much do I give to my family and how much do I give to charity?" For many parents, their primary wish is to ensure their children share their assets and possessions at their passing, but oftentimes they want to balance that with a desire to support charities they have given to for much of their lives. These individuals should consider using the "child called Charity" concept. The theory is that if your client has 3 children, instead of dividing the estate in thirds and leaving one third to each child, your client adds a fourth "child" and divides the assets in quarters, leaving 25% of the estate to each child. The fourth child is named "Charity." *Their estate would be divided between the number of their children…plus one.* It's as though they've added one child to their family, but that child is a single charity or a list of charities.

Another iteration of the same concept is "child called Community." By naming CFHZ as an additional "child" in your client's estate plans, it is as if your client is adopting our community as an heir of their hard-earned assets.

I don't currently make significant charitable contributions, why would I give through my estate?

For many people, there are two reasons they don't make significant contributions to charities during life. The first is that they are worried about having sufficient financial resources for end of life care. The second is that they have not connected with any one charity's mission in a deep and meaningful way or they can't choose which specific charity to support.

If you are in the above situation you may find a charitable bequest to CFHZ to be the perfect gift. Since the gift is paid after your death through your estate, you will never be put in a place where you "might want that money back." The gift will only happen if you do indeed have enough resources to satisfy your end of life needs. Also, a gift to CFHZ avoids the need to decide with which specific charity you connect to most. A gift to CFHZ is a gift to the Holland/Zeeland community in general.

Most people have a special affinity for the place where they live. The community gave them many memories and contributed to their ability to be successful. A charitable bequest to CFHZ is the best way to ensure that future generations living in the Holland/Zeeland area will enjoy the same quality of life you have benefited from.

Can I establish a Donor Advised Fund through my estate?

Yes. It is common for parents to establish a Donor Advised Fund through their trust and name their children as advisors. This is a great way to help pass along their values to the next generation.

What are the different methods for making a charitable bequest in my will?

Specific Bequest – With a specific bequest, you designate CFHZ to receive a specific dollar amount or specific property.

> I give to the Community Foundation of the Holland/Zeeland Area, a Michigan nonprofit corporation of Holland, Michigan, (dollar amount or specific property), to be held, administered, and used by that organization for grants, programs, and support in the areas of greatest need and opportunity. I request, but do not require, that this gift be used to establish a fund to be known as the (Name your Fund) ________________ Fund.

Residuary Bequest – A residuary bequest is used to give CFHZ all (or a percentage) of your property, after all debts, taxes, expenditure, and all other bequests have been paid.

> I give to the Community Foundation of the Holland/Zeeland Area, a Michigan nonprofit corporation of Holland, Michigan, (all of or percent of) the residue of my estate, to be held, administered, and used by that organization for grants, programs, and support in the areas of greatest need and opportunity. I request, but do not require, that this gift be used to establish a fund to be known as the (Name your Fund) ________________ Fund.

Contingent Bequest – In the event of an unexpected occurrence, (e.g. your heirs predecease you) a contingent bequest will ensure that property will pass to CFHZ rather than unintended beneficiaries.

> If, at any time, there is no one to take under the other provision of this will, I give the assets to the Community Foundation of the Holland/Zeeland Area, a Michigan nonprofit corporation of Holland, Michigan, to be held, administered, and used by that organization for grants, programs, and support in the areas of greatest need and opportunity. I request, but do not require, that this gift be used to establish a fund to be known as the (Name your Fund) ________________ Fund.

What if I would like to restrict the use of my bequest?

You may prefer to restrict your bequest for a specific purpose. For example, if you wish to honor a family member, special friend, or colleague, you can establish a legacy fund that will provide support for a program in which you (or the honoree) are particularly interested. A restricted bequest should be made in the broadest terms that are consistent with your purpose to guard against the possibility of your gift becoming impractical or obsolete. We are happy to work with you and your attorney to help you achieve your charitable goals through a restricted bequest. Please contact CFHZ to discuss your specific goals to ensure we can deliver on your request.

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Why should I include a charitable bequest in my will or trust?

A charitable bequest enables you to make a much larger and more significant contribution than may have been possible during your lifetime. In doing so, you leave a legacy to your community, while enjoying the assets you need to maintain your current lifestyle. Leaving a charitable bequest also reduces the size of your taxable estate, which may reduce your estate tax liability.

In our ever-more mobile society, your children may not share the same affinity for the Holland/Zeeland area that you do. If you leave your entire estate to your heirs, it may be less likely that your hard-earned assets will benefit the community you love and cherish. A charitable bequest to CFHZ is a gift back to our local community, and by creating a named fund, you can ensure that your family's legacy will always contribute to the quality of life we all have enjoyed.

Do I have to tell CFHZ (or any other charity) if I have included them in my estate?

No, but we appreciate knowing. You are not obligated to notify any charity that they are included in your estate plans. However, if your bequest has any restrictions we would like to know so that we can fully understand your goals and objectives and to ensure we fully carry out your gift intentions. In some cases, we may be able to offer suggestions for describing your restrictions that will help us carry out your wishes. In rare instances, involving us early will identify situations in which we are unable to receive your gift in the form you might have otherwise described and will permit you to change the restrictions or to identify a more suitable recipient able to carry out your wishes.

CFHZ maintains a *Bridge Builder Society*, which serves as a way to recognize those that have notified CFHZ that we are included in your estate plans. The *Bridge Builder Society* is also a way for us to encourage others to consider a similar type of gift to benefit the community. If you have included CFHZ in your estate plans, please consider allowing us to list you as a member of this group.

What assets are the best assets to leave to charity?

Some of the most tax-efficient assets to give through your estate plan come from retirement plan accounts because family members would pay taxes on the proceeds, which are treated as income in respect of the decedent (IRD). Series EE and Series HH savings bonds are also very attractive sources for charitable bequests because so much of their value is attributable to untaxed interest income, which makes them IRD assets as well. Because charitable bequests of IRD assets can provide both estate tax and income tax charitable deductions, an IRD asset often is the preferred asset to bequeath to charity.

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Can I make charitable bequests to other nonprofit organizations through CFHZ?

Yes. We can disburse your estate's charitable gifts in a lump sum to any number of nonprofit organizations. You may also perpetuate your yearly giving after you're gone with annual distributions to your favorite charities, payable over a number of years.

Either way, it's a simple two-step process with distinct benefits for you, the executor of your estate, and your recipient nonprofits.

Two simple steps:

1. Designate CFHZ as the recipient of your estate's charitable funds.
2. Using a form we provide, specify your recipient nonprofits and the time frame in which you'd like us to disburse funds to each.

Benefits of working with CFHZ include:

- Change your charitable distributions as often as needed without returning to your attorney to rewrite or amend your will or trust. Simply submit a new form to CFHZ reflecting your current directives.
- Make charitable distribution from your estate easier for your executor. One check from your estate, payable to CFHZ, triggers your predetermined charitable plan.
- Wary of giving a windfall to specified nonprofits? Instruct us to release funds to them over a number of years.
- Should one of your specified nonprofits cease to exist, we follow your predetermined directions to apply that allocation elsewhere.
- We honor your gifts to any 501(c)(3) nonprofit in good standing, including non-local and religious organizations.

Life Insurance

Can I use life insurance to build up the fund I create at CFHZ?

Yes. Many people find in later years that they don't need all the insurance they required when they were younger. They donate the policies to the fund they established at CFHZ. If a policy is fully paid up, the tax deduction is either the replacement value or the donor's cost, whichever is less. If a policy is not paid up, and the donor decides to continue paying the premiums, those amounts become deductible as charitable contributions. In either case, the donor gets an immediate tax deduction and substantial estate tax savings later.

How does it work?

You need to make CFHZ the owner and irrevocable beneficiary of the life insurance policy. You can either give a paid-up policy or continue to pay the premiums. Upon your death, the policy pays out into your already existing fund or establishes a new fund per your wishes.

Charitable Remainder Trust

A Charitable Remainder Trust (CRT) is one of the most flexible and tax advantaged ways to give to charity. With a Charitable Remainder Trust, you create a trust and donate an asset to the trust, while retaining the right to receive payments for life or a fixed number of years. The assets remaining at the end of your life, or the fixed number of years, transfer to the charity. Because the CRT is considered a charitable entity for tax purposes, the CRT can sell appreciated property without paying capital gains taxes, and the full amount of the gift will be available to support the payments to you and for the charitable recipient.

How much income can I expect to receive from a Charitable Remainder Trust?

Payments from a CRT are made in one of two ways: fixed (annuity) or variable (unitrust).
A charitable remainder annuity trust pays a fixed amount equal to at least 5% of the initial fair market value of the trust. Payments are made for a fixed number of years (up to twenty years) or for one or more person's lifetimes. The annuity amount is fixed at the time the trust is created.

A charitable remainder unitrust pays a percentage of the trust assets each year. The payments vary from year to year as the fair market value of the trust assets fluctuates. You must specify a payment rate (at least 5% by law) when the CRT is established. If your trust assets outperform that rate, the gains in excess of the payment can be reinvested, eventually increasing your principal and future payments. This can serve as a hedge against inflation. The reverse, however, can also be true. If your trust earns less than the rate you specify, you will still be paid that same percentage. This could erode your principal and lower your future payments.

With either charitable remainder annuity trusts or charitable remainder unitrusts, the payments occur for either a fixed number of years (up to twenty years) or for one or more persons' lifetimes.

Can the payments from the trust be made to someone other than myself?

Yes. Payments from a CRT may be made to you for your life and then made to your spouse or other beneficiary after your death. You may also direct the payments initially to some other beneficiary for his or her lifetime or a period of time. The eventual distribution of assets to CFHZ, or other charity, will take effect only at the end of the term of years determined by you or at the death of the last of the individual beneficiaries.

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What is the taxability of a Charitable Remainder Trust?

When you establish a CRT, you will receive an immediate income tax deduction for the present value of the charitable remainder interest. The charitable deduction you are allowed is based on the fair market value of the assets (even though you may have purchased them for much less), the payout rate you choose, the number of individual beneficiaries you specify, and the age of the beneficiaries or the term of years for which the trust is established. Typically, the allowable charitable deduction from a charitable remainder annuity trust is slightly greater than from a charitable remainder unitrust when the initial value and cost basis of the assets gifted are equal.

If you contribute appreciated property, neither you nor the CRT will immediately pay capital gain taxes on the transfer or sale of the appreciated property.

The beneficiary of the trust typically will pay income taxes on all or a portion of the amounts distributed by the trust. The payments are treated as first coming from the trust's ordinary income and then from capital gains. How much of the payments will be taxable and whether they will be ordinary income or capital gains will depend upon the extent that the trust has realized ordinary income and capital gains.

CFHZ has Crescendo Pro gift planning software and is happy to run income and tax scenarios at your request. Contact the office at 616-396-6590 for more details.

Can I realize increased income from this arrangement?

A CRT can provide an opportunity to increase the cash flow or yield from your property, including securities. After contributing appreciated property to a CRT, the CRT can sell the property. The sale does not trigger capital gains tax. The trustee can reinvest proceeds in assets generating tax-sheltered income or growth, thereby producing greater returns than might have been earned—and taxed—outside of the CRT.

Charitable Lead Trust

What is a Charitable Lead Trust?

A Charitable Lead Trust (CLT) is created under a trust agreement or by your will and pays a fixed annuity or percentage unitrust payment from the trust to a qualified charity. Your fund at CFHZ would be a qualified recipient. Payments would be for a designated period of time, at the end of which the remaining property of the trust would be paid to any non-charitable beneficiary you select.

What is the advantage of a Charitable Lead Trust?

A Charitable Lead Trust (CLT) can reduce the estate taxes payable on your death, because of the charitable deduction for CFHZ's charitable interest in the annuity or unitrust payment. The value of the charitable interest and deduction depends on the amount contributed, interest rates at the time the trust is funded, the length of the trust, and the amount or percentage to be paid out each year. The savings in estate taxes means that the members of your family may ultimately receive substantially more than if the property were left to them at your death. A CLT also can be a way to pass property on to your children or grandchildren while incurring little or no gift taxes.

Who would be the trustee of the CRT or CLT created either during my lifetime or by my will?

The trustee of a CRT or CLT typically is a bank or individual, or combination thereof, whom you select. In some cases you can serve as the trustee. CFHZ generally does not serve as the trustee for charitable trusts.

Retirement Assets

How do I gift a retirement account to CFHZ?

You simply name CFHZ as successor or contingent beneficiary for all or part of the assets upon death of either the retirement asset owner or spouse. This direction is made on the beneficiary designation form of the retirement account, not by Last Will and Testament.

Why are retirement assets often the most tax-efficient asset to give to charity?

Assets held in 401(k), 403(b), and IRA accounts require special consideration in your financial and estate planning. The law requires income tax to be paid on any withdrawals from the accounts, which may diminish its value for you and your heirs. If you leave retirement assets to family members in your estate plan, an estate tax may be levied as well. This double taxation could significantly decrease the value of the asset for your heirs.

By donating a retirement asset to CFHZ during your lifetime, you can remove it from your estate, preserve more of its value, and receive a federal deduction for the gift. By leaving retirement assets to CFHZ in your will, you can avoid income and estate taxes and preserve your hard-earned assets for the good of the community.

Charitable Gift Annuity

How does a Charitable Gift Annuity work?

1. You make a gift to CFHZ. You can give any type of asset, but an appreciated asset is the most tax efficient.
2. We enter into an agreement with you that provides for annuity payments and allows for a deferred charitable gift.
3. You, or whomever you established as the beneficiary, will receive a stream of income that is fixed, regardless of market conditions.
4. You also receive an immediate tax deduction for the charitable portion of your gift.
5. Upon your death, the assets remaining from the initial gift will go into your existing fund or can start a new fund at CFHZ.

How is a Charitable Gift Annuity different from a Charitable Remainder Annuity Trust?

The two main differences between a CGA and a CRAT are how the payout rate is determined and how the assets are managed. When setting up a CRAT, a donor and the trustee of the trust can agree to any annuity rate above 5% of the initial fair market value of the assets. When establishing a CGA, the annuity rate is determined using a standard set of tables, with the donor's age being the most important factor to determine the rate.

The reason that a CRAT is allowed to establish a higher annuity rate is because each individual trust's assets are managed independently. If the entire value of the trust were to be paid out to beneficiaries, the annuity payments would stop because there would be no assets left to make payments with. Conversely, assets transferred in exchange for a CGA contract are pooled with general CFHZ assets, and the annuity payments are guaranteed for life. CFHZ is in essence guaranteeing the lifetime of payments with the backing of its own assets should they be needed.

How are the annuity rates determined?

CFHZ, along with almost all charities, uses the standard American Council on Gift Annuities (ACGA) rates. These rates are updated periodically and are standardized to ensure that charities do not commit themselves to too high of payouts, which might jeopardize their other assets or their ability to continue their charitable work. The ACGA provides rate tables for all age levels based on one-life and two-life annuity agreements. The older you are, the higher the payment rate.

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What is the minimum gift size needed to start a CGA at CFHZ?

Donors can establish a Charitable Gift Annuity for as little as $10,000.

Will CFHZ administer a CGA if another charity is the scheduled beneficiary?

No. Since CFHZ is guaranteeing the payments through its own assets, we only administer CGAs where a fund at CFHZ is the ultimate recipient. This may be a designated agency fund to benefit a specific organization, but it must be a fund at CFHZ.

What is a deferred gift annuity?

A deferred gift annuity allows you to make a gift now, receive the income tax deduction this year, but delay the start of payments until later in life. This type of gift is attractive to younger donors who are planning for retirement. You will receive a higher payment rate and lifetime income, depending on when you want to start receiving payments.

What is the taxability of a charitable gift annuity?

When you establish a CGA, you will receive an immediate income tax deduction for the present value of the charitable portion of your gift. You will not immediately pay capital gain tax on the appreciation on the property given in exchange for the annuity.

A portion of the income the beneficiary receives may be a tax-free return of principal, while some is taxed as ordinary income or capital gains depending on the nature of the asset you gave. CFHZ can run scenarios for any donor outlining what the income stream and tax implications would be if they established a CGA. We would just need the ages of the beneficiaries, the amount of the gift, and the cost basis for the gift.

CFHZ uses Cresendo Pro gift planning software to determine tax implications for donors and income payouts for CGAS and charitable trusts. We are happy to run sample scenarios for you or any of your clients if you are interested in seeing how a specific scenario would play out.

Does CFHZ charge an administrative fee for holding a CGA?

Yes. The administrative fee is set by CFHZ's current fee schedule. As of 2015, there is a 1% annual fee for a Charitable Gift Annuity. Administrative fees are assessed quarterly, based on the market value of the remaining assets.