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Planned Giving

An Investment in Cape Cod's Future

Leave Your Legacy with One of These Ways to Give

Planned giving is the art of designing charitable gifts so that you realize your philanthropic objectives while minimizing your after-tax cost.

In addition to fulfilling your philanthropic goals, you can generally expect to obtain some or all of the following benefits:

- Income-tax savings, estate-tax savings, or both
- Avoidance of capital-gain tax on a gift of long-term appreciated property
- Life income for yourself and/or other beneficiaries
- Increased cash flow
- Expert management of assets
- Reduced costs and time in estate settlement

On the following pages, we will discuss the benefits of various kinds of charitable gift plans. We would be delighted to work with you and your advisors in arranging the planned gift that best suits your objectives.

Outright Gifts

Cash

Cash is the simplest, most direct, and most popular type of charitable gift. You may consider that your gift of cash has been made on the date you hand-deliver or mail it. If you make the gift online, the date is when the contribution is charged to your account. Because of the charitable tax deduction, your net cost will likely be much less than the gift's actual amount.

Example: If you are in the 32% marginal tax bracket, the net cost of a $1,000 cash gift is only $680 after your $320 tax savings.

Your cash gift is deductible up to 60% of your adjusted gross income (AGI), and you can carry over for an additional five years any amount in excess of your 60% deduction ceiling, subject to the same ceiling in any year you claim the carried-over amount.

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The recently enacted Tax Cuts and Jobs Act increased the deductible limit for gifts of cash from 50% to 60% of adjusted gross income. This means that those who make large gifts of cash can now use the deduction more quickly.

Securities and Real Estate

A gift of appreciated property, such as securities or real estate, is a popular alternative to a gift of cash and generates a double tax benefit. In addition to receiving a charitable deduction for its full fair-market value, you escape tax on the capital-gain element in the property. (To qualify for this double tax benefit, you must have held the property for more than one year.)

Example: Larry owns securities valued at $20,000 that he purchased years ago for $8,000. Because he is in the 24% federal tax bracket, Larry's $20,000 deduction from a gift of the securities saves him $4,800 in federal income tax (24% x $20,000).

In addition, Larry avoids capital-gain tax on his $12,000 paper profit, which saves an additional $1,800 ($12,000 gain x 15%). The net cost of his $20,000 gift is $13,400 ($20,000 less $4,800 less $1,800).

The full fair-market value of a gift of long-term appreciated property is deductible up to 30% of your AGI. You may carry forward for up to five additional years any amount over the 30% ceiling.

Note: If you are considering a gift of property that has declined in value, you would be better off selling it to realize a deductible loss and then contributing the proceeds to us. This ensures both recognition of your loss and deductibility of the proceeds.

Tangible Personal Property

As with a gift of securities or real estate, you are entitled to a charitable deduction for a gift of tangible personal property such as a work of art, rare books, or a stamp or coin collection. The allowable deduction for such a gift held long-term depends on the standard of "related use."

- If the use of the contributed property is related to the exempt purposes of the charity (e.g., a painting to a museum), your charitable deduction is for the full fair-market value of the property—subject to the 30% ceiling and carryover.
- If the use of the contributed property is unrelated to the exempt purposes of the charity (e.g., a stamp collection to a hospital to sell and use the proceeds), your charitable deduction is the lesser of fair-market value and your cost basis.

As with gifts of securities and real estate, long-term tangible property is property held for more than 12 months. However, the maximum capital-gain tax rate for tangible personal property is 28%, which is higher than the top rate for securities and real estate. If the 3.8% Affordable Health Care surtax applies, the maximum rate on the capital gain would be 31.8%. (See below for an explanation.)

Note: If you contribute an asset you created (e.g., a painter who gives his or her own artwork), the charitable deduction is limited to your actual cost in producing the asset.

Tax Savings for High-Income Donors

The new Tax Cuts and Jobs Act reduces income-tax rates. The maximum federal income-tax rate, which had been 39.6%, is now 37%.

However, the act did not reduce the tax applicable to capital gain in property owned for more than one year. For high-income donors the rate remains at 20%, except for the gain in depreciated real estate and tangible personal property—where the maximum

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rate is higher. For other taxpayers, except for those in the lowest tax bracket who pay no tax on capital gain, the rate is 15%.

The new act also preserved the Affordable Health Care surtax of 3.8% on capital gains and dividends. That surtax applies to single persons whose adjusted gross income exceeds $200,000 and to married couples filing jointly whose adjusted gross income exceeds $250,000. Those with adjusted gross income above these levels will be subject to a rate of 18.8% or 23.8% on long-term capital gain in securities and undepreciated real estate, depending on their taxable income.

Thus donors, especially high-income donors, continue to receive significant tax benefits from gifts of appreciated property.

Example: Kristin, who is subject to a 37% marginal federal income-tax rate, contributes to our organization stock with a fair-market value of $100,000 and a cost basis of $40,000. If she had sold the stock, she would have paid $14,280 tax on the capital gain [(20% + 3.8%) x $60,000]. She avoids this tax, and she realizes tax savings of $37,000 (37% x $100,000) from the charitable deduction. Her combined federal income-tax savings are $51,280, and the net cost of her $100,000 gift is only $48,720.

Gifts That Pay Income to You

The Charitable Gift Annuity

The charitable gift annuity is among the oldest, simplest, and most popular of the charitable life-income plans. In exchange for a transfer of cash, marketable securities, or (in some circumstances) real estate, we contractually guarantee to make specified annuity payments to you and/or another beneficiary for life—the payout rate depending on the ages and number of beneficiaries.

Immediate payment—You can claim a current charitable deduction for the portion of the transfer that represents the charitable gift element—the amount by which the fair-market value of the property transferred to us exceeds the present value of the annuity received.

Note: Income from a gift annuity receives favorable tax treatment (similar to a commercial annuity) in that a portion of each income payment is considered a tax-free return of principal over the donor's life expectancy.

GIFT ANNUITY PAYOUT RATES			
Age	Payout Rate	Age	Payout Rate
60	4.7%	75	6.2%
65	5.1%	80	7.3%
70	5.6%	85	8.3%
Various payout rates at different ages, as recommended by the American Council on Gift Annuities, a national association of charities.			

JOINT-AND-SURVIVOR GIFT ANNUITY			
Ages	Payout Rate	Ages	Payout Rate
60-60	4.1%	75-75	5.5%
65-65	4.5%	80-80	6.2%
70-70	5.0%	85-85	7.3%

Example: Frances, 78, transfers $25,000 cash to us in exchange for an annuity payment of $1,700 a year for life. Of this amount, $1,238 will be treated as a tax-free return of principal for the next 10.5 years (her life expectancy) and only $462 will be treated as ordinary income. Thereafter, the entire $1,700 will be treated as ordinary income. In addition, Frances realizes a charitable deduction of $12,010 that, in her 24% federal tax bracket, generates a net tax savings of $2,882.

Deferred payment—Payments begin at a designated time in the future, such as at retirement. A deferred gift annuity is particularly attractive if you have a high current income, can benefit from a current tax deduction, and are interested in augmenting future retirement income on a tax-favored basis.

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Example: James, 55, received a $100,000 distribution from his mother's estate, and he wants to create a memorial fund in his mother's name and supplement his retirement income. He decides to give the $100,000 to us in exchange for a deferred-payment gift annuity that will begin making payments to him when he turns 65.

As a result of his gift, James is entitled to an immediate charitable deduction of $39,748 that in his 24% bracket results in actual tax savings of $9,540. At the age of 65, when the payments are scheduled to begin, James will receive $7,400 each year for the rest of his life. An additional benefit is that $3,027 of each annuity income payment will be free of federal income tax for the remainder of his life expectancy. The remaining portion of his gift will be used to establish an endowment named for his mother.

Flexible-annuity planning option—Realizing that he might want to continue working past the age of 65 or possibly retire early, James could add a provision to the agreement that gives him the flexibility to choose when, between the ages of 60 and 70, he will begin to receive payments. Postponing the beginning date of his payments will increase the amount of his payments when he does begin to receive them, while accelerating the beginning date will reduce them. This provision would reduce his charitable deduction somewhat.

Charitable Remainder Trusts

The charitable remainder trust is popular because of the significant financial- and estate-planning flexibility it offers. This trust is similar to other types of trusts, except that a charitable beneficiary receives what's left in the trust after it terminates.

How it works: You transfer property under a trust agreement that specifies how and when trust income and principal are to be distributed. You may create the trust to become effective during life (*inter vivos* trust) or at death (testamentary trust).

A charitable remainder trust qualifies for special tax benefits if it is in one of the following permitted forms:

Charitable remainder unitrust—The primary feature of a unitrust is that it provides a variable stream of income to the beneficiary(ies). The payout must equal a fixed percentage of at least 5% of the fair-market value of the trust assets as revalued annually. Depending on your estate-planning objectives, you may emphasize the charitable deduction (by choosing a lower payout rate) or the annual return (by selecting a higher payout rate).

The unitrust may be set up for life or for a term of up to 20 years, and the payout must be made at least annually (can be more frequently) to the beneficiary(ies).

Example: A 6% unitrust valued at $100,000 will pay out $6,000 its first year. If the trust assets are valued at $110,000 in its second year, the payout will be $6,600.

The variable nature of unitrust payments may provide a potential hedge against inflation—assuming a growth in the value of the assets comparable to the inflation rate.

You are allowed a charitable deduction equal to the present value of our remainder interest in the unitrust, based on the fair-market value of the asset you transfer, the payout rate you choose, and the ages and number of beneficiaries (or the term of years). If you fund the unitrust with appreciated long-term capital-gain securities or real estate, you can increase your tax benefits by avoiding capital-gain tax on the initial transfer of the asset to the trust.

These trusts have enabled many donors to support our work while augmenting their current income.

Example: Charlene, 77, uses stocks that she has owned for more than 12 months to create a 5% unitrust with herself as the sole beneficiary for life. The stocks have a value of $200,000 and a cost basis

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of $120,000. They are currently paying a dividend equal to 2% of their value. Charlene both increases her income and realizes a charitable deduction of $126,874. In her 35% tax bracket, the deduction produces a net tax savings of $44,406. She also avoids* capital-gain tax of $15,040 ($80,000 gain x 18.8%) on the initial transfer of the stocks to the unitrust, a tax she would have incurred had she sold the stock to buy higher-yielding securities.

The first year she receives payments totaling $10,000 from the trust (5% x $200,000)—two and a half times what she had been receiving. After that she receives 5% of the value of the trust assets as revalued annually. Charlene may choose to make additional gifts to the unitrust in the future. After her death the trust's remainder will establish an endowment fund in memory of her husband.

*Note: The "avoided" capital gain is transferred to and trapped in the unitrust. Depending on the investments of the unitrust, Charlene's future income could be a combination of ordinary income, favorably taxed qualified dividend income, and/or capital gain.

Net-income unitrust—This variation of the straight unitrust facilitates the acceptance of illiquid assets (e.g., real estate or closely held stock) by permitting the trustee to distribute the lesser of the stated percentage and the net income of the trust. In the absence of income, the trust makes no distribution for that year, enabling the trustee to dispose of the illiquid asset in an orderly fashion to realize its full fair-market value.

The addition of a make-up provision can provide for the make-up of any prior years' deficiencies (the difference between the stated percentage rate and the trust's net income) to the extent the trust income exceeds the stated rate.

Flip unitrust—This version is tailor-made for you if you either do not need current income or want to transfer illiquid assets to the trust but still wish to receive a distribution of a stated percentage at some time in the future.

It starts as a net-income (with or without make-up) unitrust and on the occurrence of a triggering event, switches to a straight unitrust with payouts based on the then-value of the trust. The three permissible triggering events are a specific date, a specific event (marriage, divorce, birth, or death), and the sale of illiquid assets.

Charitable remainder annuity trust—Instead of a variable payout, the annuity trust provides a fixed payout of not less than 5% of the initial fair-market value of the gift in trust and is particularly suitable for a beneficiary who wants the security of a specified fixed payment.

Example: If Charlene chooses an annuity trust rather than a unitrust for her endowment, her initial deduction will be $119,958 and her tax savings $41,985. The payments she receives from the trust will be fixed at $10,000 and will not vary, despite fluctuations of interest rates and stock prices.

Regardless of the trust she chooses, a final benefit to Charlene is that her estate will pay no tax on the principal of the charitable remainder trust that establishes her memorial fund.

Other Planned Gifts

A "planned gift" refers to any form of contribution that is not an outright gift. Both the preceding gifts that pay you an income and the following giving methods are planned gifts. In most cases the gift is arranged now, but our organization benefits in the future.

A Gift Under Your Will or Living Trust

Each year thousands of individuals designate a portion of their assets via bequests in their wills or directions in their living trusts to benefit charities. Such gifts have become an important part of the American philanthropic tradition because they enable many individuals to make significant gifts that they

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could not have made during life. Charitable bequests and living trust directions to support our work can take various forms:

A **specific bequest** or direction instructs that we receive a specific piece of your property. Sample: "I give to (OUR LEGAL NAME) all of my shares in XYZ Mutual Fund to be used for the general purposes of said charity."

A **general bequest** directs that we receive a specified dollar amount. Sample: "I give to (OUR LEGAL NAME) the sum of $100,000 to be used for the general purposes of said charity."

A **residual bequest** designates all or a portion of whatever remains after all debts, taxes, expenses, and other bequests have been paid. Sample: "I give to (OUR LEGAL NAME) fifty percent (50%) of the rest, residue, and remainder of my estate to be used for the general purposes of said charity."

A **contingent bequest** takes effect only if your primary intention cannot be met and ensures that property will pass to us rather than to unintended beneficiaries—including the government.

While all of the examples above provide our organization with unrestricted support, any of them may be designated as a restricted bequest for a specific purpose. For example, if you wish to memorialize a family member or an honored colleague, you may establish a named fund that will provide support for a program of special interest to you or the honored person.

Gifts of Retirement-Plan Assets

Retirement plans now account for 36% of household wealth, so assets in those plans are often used for charitable gifts.

A simple way to make a gift from your IRA, 401(k), 403(b), or other defined contribution plan is to name our organization as a beneficiary of all or a percentage of whatever might remain in the fund at the end of your life. You need only complete a change-of-beneficiary form, which you can obtain from the plan administrator. Such a gift is doubtless the most cost-effective way to make a charitable gift. Here's why: These assets (unless from a Roth IRA) are subject to income tax when paid to a noncharitable beneficiary, and they may also be subject to estate tax—depending on the size of your estate. However, they are subject to neither tax when paid to a charitable organization.

If you are over the age of 70½ and would like to make a current gift from your IRA, you may authorize your IRA administrator to transfer (or "roll over") up to $100,000 to one or more qualified charities. The amount transferred will not be included in your taxable income and will count towards your required distribution. The law allowing such transfers was not changed by the new tax act. Note that while you may name a charity as beneficiary of any deferred contribution plan, such as an IRA, 401(k), or 403(b), the tax-free lifetime transfer can be only from an IRA.

Gift of Your Home with Retained Life Estate

Your gift of a remainder interest in your personal residence or farm provides you with a charitable deduction for the present value of the remainder interest and permits you to escape potential capital-gain tax on the built-in appreciation. What may be more important from your point of view is that you may continue to occupy your home or operate the farm without disrupting your lifestyle. The deduction for such gifts is now quite large because of the low interest rate the IRS prescribes for the calculation.

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Gifts of Life Insurance

One way to make a gift of life insurance is to name our organization as a beneficiary of all or a percentage of the proceeds payable at the end of your life. In the event that your family circumstances should change, you would be able to alter the named beneficiaries. No charitable deduction is allowed because you can change your mind. However, proceeds paid to our organization would qualify for an estate-tax charitable deduction.

If you are quite certain that you would not need an insurance policy for family protection or other purposes, you can assign ownership of it to us. You would receive a charitable deduction for the current value of the policy (or cost basis if that is less than the current value), and you would also receive a deduction for any premiums you subsequently pay.

Planning idea: You could purchase a policy to replace another asset you contribute to us. Thereby, you are able to make a gift without diminishing what you leave to heirs.

The Charitable Lead Trust—A Way to Keep Donated Property in the Family

A charitable lead trust is the opposite of a charitable remainder trust. It pays income to charity for a certain period of time and then either returns the assets to you or distributes them to your heirs.

If the assets are returned to you, it is a **grantor** charitable lead trust. You receive an income-tax charitable deduction for the present value of the payments we are to receive from the trust for the specified period of time. However, you continue to be taxed on the income earned by the trust each year—including the amount distributed to us. The up-front tax savings often far exceed the taxes you pay on trust income, particularly if much of that income consists of capital gain, dividends, and interest from tax-exempt securities.

If the assets are distributed to your heirs, it is a **nongrantor** charitable lead trust. You do not receive a tax deduction, and you are not taxed on trust income. You do receive a gift-tax deduction if the trust is established during your lifetime or an estate-tax deduction if it is established under your will.

Although a lead trust can be designed to pay a charity a certain percentage of trust assets as revalued each year, most lead trusts pay charity a fixed amount. The charitable deduction from a trust that pays a fixed amount (the charitable lead annuity trust) is quite high now because of the very low IRS interest rate for calculating the deduction. With such a lead trust you may be able to transfer significant wealth to children or grandchildren without payment of gift or estate taxes.

Gifts to Fund the Future

The primary reason you would make a gift to our organization is that you believe in its mission and want to ensure its future, but you will want to choose the giving method that maximizes tax savings, provides for your family's security, and is personally satisfying. This guide has presented for your consideration various ways to make a charitable gift. We would be pleased to meet with you and discuss whatever arrangement might be appropriate for your situation.

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