

# Practical Advice for Helping a Donor Make a Larger Gift Than They Thought Possible

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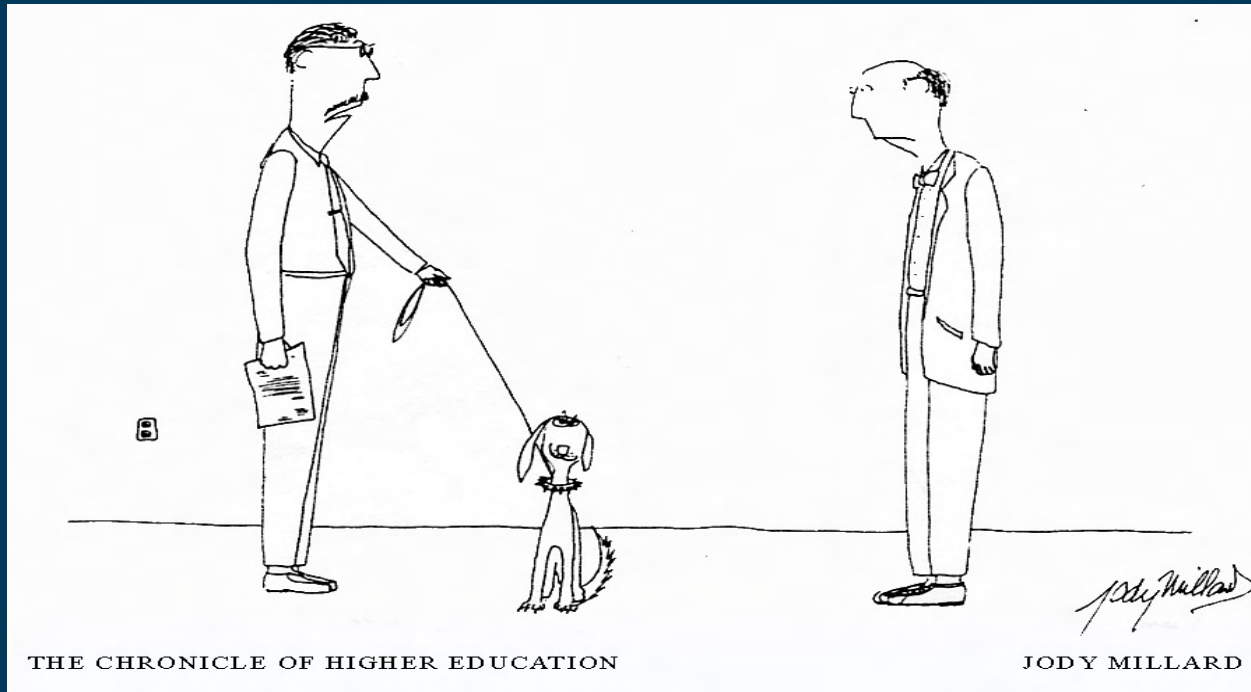
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# Welcome & Overview

- What Exactly is Gift Planning?
- Characteristics of a Planned Gift
- Ways to Make a Gift
- Case Studies

# The Volunteer's Definition of Gift Planning



“After 18 years of cultivating Patrick Daniels, III, may I present his planned gift to us: Twinkles.”

# Penn State's Definition of Gift Planning

The process of designing charitable gifts so that the donor realizes their philanthropic objectives while maximizing tax and other financial benefits.

# Why is Gift Planning Important?

A creative way to make a gift

A way to make larger gifts than ever thought possible

A way to achieve philanthropic & financial objectives

A way to insure the longevity and future financial needs  
of Penn State

# Ways to Make a Gift

## Give It Now

- Outright Gift or Pledge

## Give It Later

- Bequest or Beneficiary Designation

## Give The Asset, Keep The Income

- Life Income Gift
  - Gift Annuity or Charitable Remainder Trust

## Give The Income, Keep The Asset

- Wealth Transfer Strategy
  - Charitable Lead Trust

# Gift Planning Assets

- Cash
- Securities
- Real Estate
- Retirement Plans
- Life Insurance
- Business Interests
- Artwork and Other Tangible Property
- Intellectual Property



# What to do when the Donor Prospect says

- I need all the income my assets produce to live on.
- I can't give away capital assets; I intend to pass them on to my children and grandchildren.
- I must put my kids through college!
- Penn State is not my only charity.
- I need all my income. Most of my assets are non-income-producing real estate so I am cash poor.



## Or when s/he says

- I hesitate to part with any assets; I worry about a long-term illness and having enough to take care of myself.
- Our oriental rug collection is our pride and joy, but our children don't want the hassle of caring for them or insuring them.
- This year's been very bad for me; my tax situation is awful and I am going to owe a huge capital gains tax. Maybe some other year.

# The Gift Planning Solution

- Overcoming objections.
- What does “no” really mean?
- Gift Planning vehicles that make the gift happen.
- Gift Planning in a capital campaign.
- The power of a bequest for endowment building.

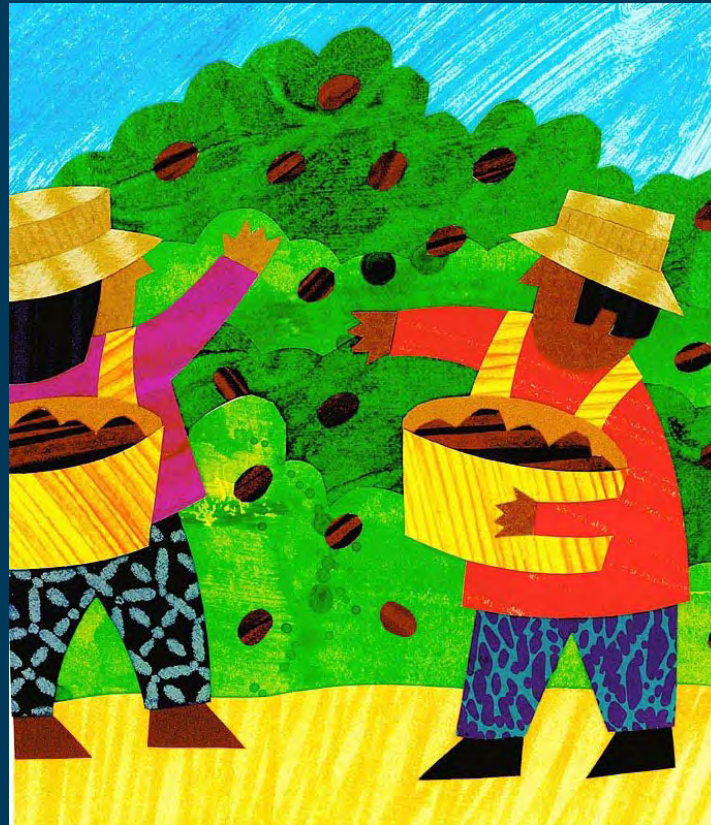
# The Gift Planning Solution

Gift Planning offers the ultimate flexibility to mitigate and help our donors to handle uncertainty.

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# Case Studies – The Apple Tree Analogy



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# **If your goal is to make a gift where the funds are immediately available, give the Apple Tree now by making an outright gift (one-time or pledge)**

- May be funded with:
  - Cash, appreciated securities, closely held securities, real estate, personal property
- No minimum or maximum amount
- Benefit for you
  - Usually fully deductible for 100 percent of the fair-market value, subject to certain limitations

# Using Appreciated Stock for a Gift

Assume 35% federal income tax and 15% capital gains tax.

	Giving Cash	Giving Stock Basis \$25,000
Charitable Gift	\$100,000	\$100,000
Capital Gains Tax Saved	\$0	\$11,250
Income Tax Savings	\$35,000	\$35,000
Net Cost of Gift	\$65,000	\$53,750

# How Much More Can You Give?

- Since it costs less to donate appreciated stock, how much more can you give for the same after-tax cost as cash?
- A donation of \$120,930 of appreciated stock would reduce your income taxes by \$42,326 and allow you to avoid capital gain tax of \$13,605 for a net cost of \$65,000.
- The result is a \$20,930 larger gift!

# If your goal is to defer a gift until after your lifetime, give the Apple Tree in the future through your will or beneficiary designation

- May be funded with:
  - Bequests - Cash, appreciated securities, closely held securities, real estate, personal property
  - Beneficiary Designations – Retirement plans and life insurance
- No minimum
- Benefit for you
  - Estate-tax charitable deduction for full fair-market value of bequeathed asset; may reduce estate and death taxes, thereby increasing the size of the estate available for heirs





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# Endowing the Annual/Campaign Gift

Example:

A donor contributes \$2,500 annually to Penn State and wants to make this a perpetual legacy

He/She should consider a bequest for \$50,000 because the typical endowment spending policy of 5% equals \$2,500

Other Annual Gift Increments:

\$5,000/year = \$100,000 bequest

\$50,000/year = \$1,000,000 bequest

# Early Activation

Allows the impact of a bequest to begin immediately.

Example - \$1 million bequest for a professorship. Annual gifts of \$50,000 will early-activate the gift and leverage the bequest into a \$1.25 million campaign gift.

# If your goal is to secure a fixed income or create a hedge against inflation, give the Apple Tree but keep the Fruit with a life income gift

- May be funded with:
  - Cash, appreciated securities, some closely held securities, real estate, personal property
- Minimum for:
  - Gift Annuity - \$10,000
  - Charitable Remainder Trust - \$100,000
- Benefit for you
  - Immediate tax deduction equal to remainder interest in gift; income (fixed or variable); avoidance of all capital gains tax; may provide tax-free income

## Situation

- \$100,000 of GE stock with cost basis of \$20,000 paying a 1% dividend
- GE stock transferred to 6% Payout Penn State CRT
- Donors are husband and wife age 72 and 70

## Result

- \$80,000 capital gain avoided, saving \$12,000 in taxes paid at 15% tax rate
- \$32,000 income tax charitable deduction generated, saving \$11,200 in taxes paid at 35% Federal tax rate
- First year income is 600% of prior dividend income
- Receive \$139,651 in payments over lifetime assuming 8.2% return on trust assets

# If your goal is to reduce gift and estate taxes on assets you pass to children, give the Fruit but get the Apple Tree back with a Charitable Lead Trust

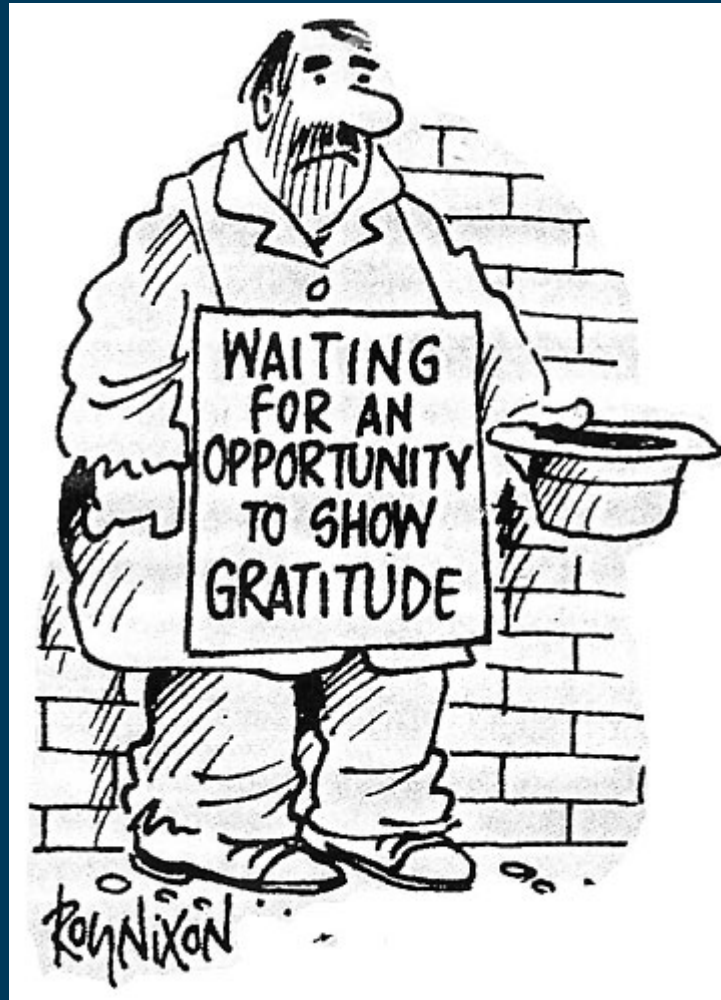
- May be funded with:
  - Cash, appreciated securities, closely held securities, real estate
- Minimum for Charitable Lead Trust
  - \$500,000
- Benefit for you
  - Freezes value of assets contributed for gift- and estate-tax purposes

## Opportunity

- A donor places \$3 million of closely held stock in a non-grantor Charitable Lead Annuity Trust.
- The trust will pay 7% of the contribution, or \$210,000, annually to Penn State. The donor's 2 children will receive the Lead Trust assets in 20 years.

## Result

- Children receive almost \$4.7 million from Lead Trust (8.2% annual investment return assumed).
- Gift tax deduction is \$2,847,840. Taxable gift to children is only \$152,160, minus available exclusions.
- The donor's gift credit at Penn State is over \$3.8 million in the year of the contribution.



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# Thank You!

And don't forget to ask your friendly Gift  
Planning Officer for assistance!

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