

THE JOY OF CHARITABLE GIVING

Each one should give what he has decided in his heart to give, not reluctantly or under compulsion, for God loves a cheerful giver.

2 Corinthians 9:7

INTRODUCTION

The Lord loves a cheerful giver.

For where your treasure is, there will your heart be also. Matthew 6:21

In his excellent book, *Give to Live – How Giving Can Change Your Life*, Douglas M. Lawson, Ph.D., takes a spiritual approach to charitable giving. An ordained Methodist minister, this nationally prominent fundraiser and management consultant proposes in his book that there are many physical, emotional, and spiritual benefits received through the act of thoughtful giving. While the physical benefits of better health and the emotional benefits of reduced stress are very attractive, it is the spiritual benefits that bring the deep, inner joy. Following are the spiritual benefits as suggested by Dr. Lawson:

- Greater connectedness to God
- More receptivity to spiritual guidance
- Added involvement in charitable activity
- Heightened sense of appreciation and acceptance of others
- Sustained peace of mind
- Greater clarity about the meaning and purpose of life
- Enhanced quality of life

It is in the spirit of commitment to the highest practice of stewardship that the North Carolina Baptist Foundation dedicates its efforts. It is our desire that this booklet will assist you in your search for the joy of charitable giving.

TABLE OF CONTENTS

Gifts Come in Many Forms

- Gifts of Cash
- Gifts of Securities
- Gifts of Real Estate

Endowments Give Permanent Support

Donor Advised Funds Give Flexibility

Gifts Can Provide Income for Family and Then to Charity

- Charitable Remainder Unitrust
- Charitable Remainder Annuity Trust
- Charitable Gift Annuity

Gifts Can Provide Income for Charity and Then Outright to Family

- Charitable Lead Trust

Remembering Family and Charity at Death

- Last Will & Testament
- Life Insurance
- Retirement Plans

Return Card

The purpose of this brochure is to help you better understand your various charitable-giving options through The North Carolina Baptist Foundation, Inc. Some options provide immediate financial assistance to Christian ministries while others provide income to self or family first. All gifts should be cheerfully made by well-informed donors.

GIFTS CAN COME IN MANY FORMS

Gifts Of Cash

The simplest and fastest way to make a charitable gift is to give cash, usually by personal check. Outright gifts of cash are fully deductible in the year of the gift (for those that itemize) to the extent of 50% of adjusted gross income. Unused portions may be carried over for up to 5 additional years.

Gifts Of Securities

There is an added advantage when donating stocks and bonds that have appreciated in value and have been owned for more than one year. Generally, when an owner sells securities, there is a capital gain tax due on the amount that the securities have increased in value over the original purchase price. The amount of the tax is based on the donor's federal income tax bracket. By donating appreciated securities to charity and allowing the charity to sell them, the capital gain tax is avoided. Gifts of appreciated securities are fully deductible in the year of the gift to the extent of 30% of adjusted gross income. For securities that have lost value, the donor should sell the asset and then donate the net proceeds, because the donor can then claim a capital loss.

Example: The Browns own stock that they purchased several years ago for \$2,000 that is now worth \$10,000. They want to establish an endowment for the benefit of missions and are considering whether to give cash or the stock. Their advisor told them that, based on their 27% income tax bracket, they would have to pay a 20% federal capital gains tax on the \$8,000 increase in value should they sell the stock.

The following chart shows the net results for three options the Browns have for funding their endowment:

	Option 1 Give \$10,000 Cash	Option 2 Sell Stock, Pay Tax, Give Balance	Option 3 Give Stock
Cash/Stock Value	\$10,000	\$10,000	\$10,000
Capital Gains Tax Saved or Paid	N/A	\$1,600 Paid	\$1,600 Saved
Ordinary Income Tax Saved	\$2,700 Saved	\$2,268 Saved	\$2,700 Saved
Net Tax Savings	\$2,700	\$668	\$4,300
Net Given to Endowment	\$10,000	\$8,400	\$10,000

Gifts Of Real Estate

Gifts of real estate generally follow the same rules as securities with regard to deductibility (see above). With real estate, it is possible to give a fractional interest in property by deeding an undivided interest. When undivided interests are donated and the property is jointly sold, the sale proceeds are split between the donor and the charity. The donor is responsible for any capital gains taxes due on the retained portion. For gifts over \$5,000 in value, a professional appraisal is required to substantiate the value. Because of concerns for possible environmental contamination, such gifts must be closely

examined before being accepted as a charitable gift. In some cases, a professional environmental audit will be required.

ENDOWMENTS GIVE PERMANENT SUPPORT

An endowment is a special fund that is set up for providing permanent income support for a named Baptist charity or charities. The trustee of the endowment invests the donation, and the earnings are distributed to the designated charities annually. The North Carolina Baptist Foundation is the trust agency of the Baptist State Convention, and one primary purpose of the Foundation is to serve as trustee for endowments.

Endowments may be established in the name of the donor or they can be named in honor or in memory of someone special. Because of the desire to serve all North Carolina Baptists, the Foundation will serve as permanent trustee for endowments both large and small. Endowments can be added to at any time and in any amount. Many choose to add significantly to their endowments by Last Will and Testament. The Foundation will serve as trustee for endowments that include a variety of charities as long as Baptist ministries receive at least 51% of the endowment income.

Example: Tom and Beverly Langford would like to set up a fund to provide annual support for the Baptist college that provided such a good foundation for their careers. In fact, they met while in school. They want to donate some stock this year that they purchased for \$5,000 twenty years ago that is now worth \$25,000. The stock ownership is transferred to the Foundation and a short endowment agreement is prepared and signed by the Langfords and the Foundation. The Langfords receive an income of \$60,000, and so they can utilize \$18,000 of the deduction the first year. The remaining \$7,000 will be available the following year. The stock is sold by the Foundation, and the college begins receiving the income from the investment in the name of Tom and Beverly Langford, forever.

DONOR ADVISED FUNDS GIVE FLEXIBILITY

A donor advised fund is a special type of fund established to receive charitable gifts when no specific charities are named at the time of the gift. At some point in the future, the donor writes the Foundation and requests that a distribution of a specific amount be paid to a named charity. The Foundation reviews the request and once approved, a check is sent to the charity. A donor advised fund may be created to pay out income only or it may direct that income and principal be available. Contributions are fully tax deductible, and the donor advised fund may be added to at any time.

GIFTS CAN PROVIDE INCOME TO THE DONOR OR DONOR'S FAMILY AND THEN TO CHARITY

Charitable Remainder Unitrust and Annuity Trust

A charitable remainder trust (CRT) is a special vehicle approved by the Internal Revenue Service that allows individuals to make a charitable gift and yet receive the income from the gift for life (or lives) or for a term of years. After the selected trust period is over, the assets remaining in the CRT are delivered to the named charity(ies). Because the assets eventually go to a charity, special tax benefits are available at the time of the gift to the donor. At the Foundation, the assets remaining in the CRT are used to establish a permanent endowment with the donor naming the charities to receive the endowment income.

Tax benefits available for establishing CRTs include:

- Income tax deduction for a portion of the gift;
- Bypass of capital gains tax upon the sale of long-term appreciated assets;
- Possible estate and gift-tax savings

Other benefits may include:

- Increased income from a non- or poor income-producing asset;
- Financial support for a family member;
- Professional money management;
- A way to provide significant and permanent future support for Christian ministries.

There are two types of CRTs, the unitrust and the annuity trust.

Charitable Remainder Unitrust (CRUT)

A CRUT pays income based on a set percentage that is multiplied by the market value of the trust principal as revalued on January 1 of each year. As the principal value changes due to the investment, so does the payment. For example, if the trust is valued at \$100,000 on January 1 and the payout percentage is 6%, the beneficiary would receive \$6,000 for the year. If the trust earned \$8,000 during the year, then the extra \$2,000 of earnings would be added to the principal. The next year, the payment would be based on 6% times \$102,000. Because the trust is revalued each year, future contributions to CRUTs are allowed. Other CRUT options are available.

Charitable Remainder Annuity Trust (CRAT)

A CRAT pays a fixed income based on a set percentage that is multiplied by the value of the gift going into the trust. The payment remains the same for the duration of the trust, regardless of the investment returns. Because it makes a fixed payment, CRATs cannot accept future contributions. For example, if the trust is funded with \$50,000 and the payout percentage is 7%, then the trust would pay \$3,500 each year and would not fluctuate.

Charitable Gift Annuity (CGA)

A CGA is a contract between the donor and the charity whereby the donor is exchanging a gift for an assured fixed payment for life. Payment may be made for one or two lives. The size of the payment is based on the age(s) of the payment recipients; the older the recipient(s) the larger the payment may be.

Donors are allowed a tax deduction for a portion of the amount gifted to the CGA. For the recipient's life expectancy, a portion of each payment will be tax-free. When funded with appreciated assets, part of the capital gains tax is forgiven, and the rest is spread over the donor's life expectancy. Capital gains are treated differently when a CGA is created for someone other than the donor and/or a spouse.

Example for \$5,000 cash CGA established in year 2003. Available rates are revised by the American Council of Gift Annuities from time to time.

Age of Income Recipient	Payout Rate & Annual Payment Amount	Approximate Payment Amount Tax-Free	Approximate Income Tax Deduction
65	6.3%/\$315	\$183	\$1,438
75	7.3%/\$365	\$247	\$2,041
85	9.7%/\$485	\$385	\$2,536
65 & 65	5.8%/\$290	\$164	\$ 976
75 & 75	6.5%/\$325	\$213	\$1,600
85 & 85	8.1%/\$405	\$307	\$2,205

THIS GIFT PROVIDES INCOME TO CHARITY AND THEN THE GIFT GOES OUTRIGHT TO FAMILY

Charitable Lead Trusts (CLT)

A CLT is often described as being the opposite of a CRT. This type of trust pays income to a charity for a defined period of time, and when the trust terminates, the assets go back to the donor or are transferred to family. The most common are called non-grantor CLTs, and they go to family. Typically, they are funded with assets that are expected to appreciate significantly over time and then be transferred to family with reduced gift or estate taxes. Because of their complexity, CLTs are generally used by individuals with larger estates and who are very charitably inclined.

REMEMBERING FAMILY AND CHARITY AT DEATH

Last Will and Testament

Individuals are often able to make significant gifts to family, close friends, and special charities through their Last Will and Testament, especially when there is not a surviving spouse. Gifts to family may be outright bequests, or they may be in the form of trusts. Gifts to charity may also be outright bequests, or they may be deferred gifts such as charitable remainder trusts or charitable gift annuities. Charitable gifts made at death are generally eligible for estate tax deductions. The charitable remainder trust provides an exciting opportunity to create a legacy for both family and charity—a concept best described as Giving It Twice.

Giving It Twice example:

Elizabeth Tyson was a widow with three grown children and she and her husband had worked hard to earn what they had accumulated. She loved her children and wanted to pass the estate on to them at her death. She also loved her church and its active missions work. In her Last Will and Testament, she created a charitable remainder annuity trust paying a 7% fixed payment to her children for a term of 15 years based on the value of her entire estate. At her death, the total estate came to \$200,000, and so her children received checks from the Baptist Foundation in the amount of \$14,000 each year for a total of \$210,000. After making these payments, the trust rolled over into a permanent endowment in Elizabeth and John's name, paying annually to her church for mission causes—and it will pay the income until Jesus returns. Elizabeth had indeed given her estate twice, once to family and then again to the Lord's work.

One key point to remember when doing estate planning is that not all assets are transferred at death by Last Will and Testament. Life insurance, retirement accounts, deferred annuities, and the like are called non-probate assets and are transferred by using a beneficiary designation form. Check with your advisor for your specific situation.

Life Insurance

Life insurance is often purchased early in life and then later not needed for its original purpose. Such policies can be used to fund an endowment for Christian ministry support. If it is a paid-up policy and the ownership is transferred to the Foundation, then a charitable deduction would be available approximately equal to the policy's cash value. If it is a term-type policy and the ownership is transferred to the Foundation, then charitable deductions would be available for any premium payments made to keep the policy in force. When the Foundation is named as the beneficiary and not the owner, then a current deduction is not available, but an estate tax deduction would be available for the amount of the insurance proceeds.

Life insurance for the benefit of children can also be a powerful tool to replace an asset given to charity while living. Parents can establish a charitable remainder trust for their own benefit (gift to charity comes later) and then use the deduction and part of the trust payments to purchase a second-to-die policy on their lives. If structured properly and owned by the children inside a trust, the children can

receive their inheritance completely tax-free. This is commonly referred to as a wealth replacement trust.

Retirement Plans

Retirement plan assets have replaced the home as the largest asset owned by the typical family. Because retirement assets may be substantial in size and because they may be subject to both income and estate taxes at death, they are often considered a preferred asset to give to charity. They may be donated at death to the Foundation, by beneficiary designation form, to fund an endowment, or they may be donated the same way to fund a charitable remainder trust for family. The agreements to receive these at-death gifts need to be prepared while living.

Example of Charitable Trust Funded With Retirement Asset:

Henry Thompson, a widower, is 72 and has started withdrawing the minimum amount required from his individual retirement account (IRA). He hopes to continue withdrawing just the minimum amount and then pass the remainder to his children. Henry is active in supporting benevolent causes through his church and would like to ensure that this ministry is provided for beyond his lifetime. He decides to meet both objectives by naming the foundation as the beneficiary of his IRA for the purpose of funding a 20-year-term charitable remainder unitrust for his children. The foundation assists his attorney in getting an unfunded trust agreement in place. At his death, the IRA assets will be transferred to the foundation, and no income taxes will be owed on the gift. Because Henry's estate is sizeable and will likely be subject to estate taxes, the unitrust will provide needed estate tax relief for a portion of the gift. The trust will make sizeable payments to the children for 20 years, and they are only taxed on the income as they receive it. He is able to pass significant assets to the children over time and also ensure that his Kingdom work will continue.

In providing this brochure, neither the author nor this organization is engaged in rendering a legal or tax advisory service. Charitable and planned gifts involve the complex rules of both federal and state laws. Advice from legal counsel or other personal tax advisors should be sought. The Treasury tables for computing charitable deductions change monthly.