



THE MONTANA



COMMUNITY



FOUNDATION

**THE BASICS OF PLANNED GIVING
A GUIDE FOR DONORS**



At the Montana Community Foundation, we like to say that we're in the "forever" business. This can, however, be a difficult concept to grasp. One person who understood the benefits of thinking in terms of "forever" was Benjamin Franklin. Through his estate, Franklin left 1,000 pounds sterling—roughly \$4,000—each to the cities of Philadelphia and Boston. His will included detailed instructions to ensure that the funds build over the long term, as well as generate earnings to support the kinds of charitable activities he personally contributed to throughout his lifetime.

While it was not extraordinary for the wealthy in 18th century America to make charitable bequests, Franklin's gift was unique for its structure, which guaranteed that the value of his bequest would more than keep pace with the growth and vitality of the cities he loved.

By 1990—200 years after Franklin's death—his bequests had grown into multi-million dollar endowments that continue to fund scholarships, fire departments, libraries, job training, and symphonies. In doing so, Franklin demonstrated the capacity of a structured gift to provide a permanent and perpetual link between a Founding Father and forever.

The Montana Community Foundation was established in 1988 to help Montanans build a permanent financial legacy to support charitable work in Montana forever. With a focus on building endowed funds and addressing specific community issues through grants, The Foundation,

- Works directly with donors to execute their charitable and financial goals.
- Makes grants to programs focused on rural community vitality; economic self-sufficiency for women and girls; and building tolerance and combating bigotry.
- Advocates for public policies that encourage charitable giving.
- Administers endowments for Montana non-profit organizations, providing predictable distributions to support their operating needs.

Montanans are generous people. We contribute to charitable causes of all kinds and we go the extra mile to help our friends and neighbors, making gifts of cash or contributing in-kind goods or services to causes important to us and our communities.

However, there is another way we can support our communities. A way which has not always been fully used by our state's donors but one which can be very effective. That way gives donors access to income during their lifetimes, estate and tax planning tools, and builds permanent financial wealth to support our state's charities. It is called planned giving.



WHAT IS PLANNED GIVING?

“Planned” gifts are part of estate and tax planning, and are usually made in consultation with financial and legal professionals.

- A donor generally makes a contribution from his or her assets or estate, rather than from current income.
- A donor generally receives current income and tax benefits. The benefit to charity is deferred to a future time, usually at the death of the donor or the donor’s successor.

WHO SHOULD MAKE A PLANNED GIFT?

- People in their retirement years who want to support charity, have non-productive assets and need increased income for retirement use or annual giving.
- Individuals who want to reduce their taxes.
- Younger donors who have made maximum contributions to their retirement plans, want to create additional retirement income, and want to help their communities while receiving current tax relief.

WHY MAKE A PLANNED GIFT?

- To make a larger contribution to charity than is possible with an outright gift during the donor’s lifetime.
- To enhance the current income value of under-utilized or marginally productive appreciated assets.
- To minimize capital gains taxes resulting from the sale of appreciated assets.
- To reduce estate and related taxes.
- To increase annual income to meet living expenses or to increase charitable contributions.
- To ensure that charitable intentions of donors continue beyond their lifetimes.

REVOCABLE PLANNED GIFT

The simplest and most common form of planned gift is made through the donor's Last Will and Testament. Making a bequest does not reduce current assets, but distributes them to charity after the death of the donor.

- Existing wills can be easily modified with a codicil that specifies a dollar amount or percentage of an estate go to charity.
- The donor may cancel the bequest or change the beneficiary at any time until death.
- Charitable bequests can help reduce estate taxes by reducing the size of the donor's estate.

Making charity(s) the beneficiary of retirement plans is also becoming increasingly popular. This is because the charity does not pay income taxes on IRA distributions, while an individual beneficiary would.

Donors can also use a bequest to endow the annual gifts made to charitable organizations during their lifetimes. For example, if you have been giving \$200 per year to a particular organization, making a bequest of \$5,000 to an organization's endowment will provide that organization with a similar size annual gift in perpetuity.

IRREVOCABLE PLANNED GIFTS

These planned gifts are made from current assets through a trust or contract, and usually provide annual income for life to the donor and often a successor beneficiary, such as a spouse. At the death of the last surviving income beneficiary, the remaining amount of the gift goes to charity.

- Planned gifts are permanent. However, a donor may reserve the right to change the charitable beneficiary to another tax-exempt beneficiary.
- Planned gifts are often made by transferring appreciated assets, e.g. securities or land, which have substantially grown in value. The donor's tax deduction is based on the market value on the transfer date.
- Planned gifts usually generate greater income than that produced by the original asset used to fund the gift.

Planned gifts may produce significant tax savings. They often help a donor avoid or stretch out payment of capital gains taxes, earn federal and state income tax deductions, reduce the size of the donor's estate, and, if given to a Montana endowment, may be eligible for the Montana Endowment Tax Credit.

WHAT IS THE MONTANA ENDOWMENT TAX CREDIT? (AS OF JULY 1, 2003)

The Montana Endowment Tax Credit allows donors to pay less in Montana state income taxes when they give a qualifying planned gift to a qualified Montana charitable endowment.

The incentive is 40% of the federal charitable deduction, up to a maximum \$10,000 tax credit, per year, per individual, and a credit of 20% of a direct gift by a qualified business, up to a maximum of \$10,000 per year.

Example: A donor, 65, purchased a \$10,000 charitable gift annuity in 2005 with a certificate of deposit that matured. As income beneficiary, the donor will receive 6.0%* or \$600 per year for life.

The donor named the permanent endowment of a favorite Montana non-profit 501(c)(3) organization as the remainder beneficiary of the annuity. Therefore, the donor is eligible for the Montana Endowment Tax Credit. The federal charitable deduction for the gift is \$3,553* and the qualifying amount for the Montana Endowment Tax Credit is \$1,421 or 40% of the federal deduction. (Assumes an IRS discount rate of 5%.)

*These figures were calculated using IRS discount rates and annuity rates at the time of publication and are subject to change. Please contact the Foundation for current rates.

WHAT KINDS OF PLANNED GIFTS ARE THERE?

- Montana law recognizes nine types of planned gifts; however, our experience is that most donors can accomplish their charitable and tax planning goals with a charitable or deferred gift annuity. These planned gifts are easy to establish (the Foundation staff can help you complete all the paperwork) and require a minimum gift of only \$5,000.
- For donors who have illiquid assets to give such as real estate, whose value exceeds \$100,000, we suggest you call your financial advisors to discuss the best planned giving option to achieve your goals.

HOW DOES THE FOUNDATION INVEST AND ADMINISTER MY PLANNED GIFT?

- Professional funds managers, selected by the Foundation's board, invest planned gift assets according to the Foundation's investment policy. The Foundation assumes the responsibility for all reporting, filing tax returns and making payments to beneficiaries.
- Once the last surviving beneficiary dies, the remainder of the planned gift is transferred to the charity's endowment. It is then invested in the Foundation's professionally managed and independently evaluated pooled investment portfolio, or other investments as approved by the Foundation's Investment Committee and Board of Directors.

HOW CAN THE FOUNDATION HELP ME MAKE A PLANNED GIFT?

- The Foundation offers a variety of planned giving options to donors and financial advisors and can answer questions about the Montana Endowment Tax Credit.
- The Foundation provides information to help donors and their legal and financial advisors determine the income and tax implications of specific gifts and how to transfer assets to fund the gift. However, the Foundation does not give legal or tax advice. Be sure to contact your advisor before making a planned gift.
- The Foundation's financial strength and stability assures donors that income payments due them will be made in accordance with the gift contract.
- The Foundation can help donors identify charitable organizations with permanent endowments that support their philanthropic goals. We are able to distribute a gift to one or more endowments as well as ensure donor anonymity.

MISSION STATEMENT

Cultivate philanthropy to build Montana's future.



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