



Scouting America™

Office of Development



2019

GIVING QUESTIONS?

SCOUTING ANSWERS.

Income Producing Gifts

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INCOME PRODUCING GIFTS

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INCOME PRODUCING GIFTS

If you are a charitably-minded individual, this may be a particularly good time to consider gifts such as gift annuities, charitable trusts, and gifts of remainders in homes and farms. With the current tax act, less than 1/10th of 1% of estates are subject to estate tax. In other words, very few estates will get (or need) estate tax savings for charitable bequests.

Of course, income taxes and capital gains taxes still affect almost all of us. That's why many lifetime giving strategies still involve current income tax deductions, capital gains savings and deferral, and annual income payments.

You may, or course, prefer to make your gifts to Scouting in your will or other estate designations. Many people prefer that flexibility, and peace of mind, even without any current tax benefits. But here are some great ideas if you think additional income and tax deductions, will help meet your estate planning needs.

CHARITABLE GIFT ANNUITIES

A charitable gift annuity is a simple contract between you and the Boy Scouts of America. You make a gift, you receive a fixed amount of income, for life, to you, and/or a spouse, or to one or two individuals you select. These payments are sent quarterly and guaranteed by the Boy Scouts of America. The amounts will not change and they are unaffected by market performance.

Annuity payments, are based, in part, on the age of the income beneficiaries at the time their payments begin. You receive an immediate charitable income tax deduction when you make your gift. Also, the annual payments are partially tax-free (considered a return of principal). If you made your gift with appreciated property (stocks, mutual funds, bonds, etc.), part of the annual income will be taxed at the reduced capital gains tax rates.

Perhaps the most important benefits may be: a) a stream of income you can count on for life, and b) the satisfaction of making a significant gift to Scouting when your gift annuity ends. The gift annuity may even increase your current cash flow, depending on what you use to fund it.

The minimum gift for a BSA gift annuity is **\$10,000** in cash or stock. You cannot add to a gift annuity once it is made, but you may set up as many of them as you wish and combine the payments. (Some of our donors have ten or more!)

You may choose anyone to receive the payments for life, but all beneficiaries must be at least **60 years of age** at the time the payments begin. Also, there may be gift tax implications if you have chosen beneficiaries other than yourself and/or your spouse. Most donors select themselves and/or a spouse to receive the income.

A 70-year-old donor in the 35% tax bracket wants to set up a \$10,000 gift annuity; it will pay 5.6% annually. She is considering either a gift of cash or stock (with a basis of \$2,500)

	<u>Tax Deduction</u>	<u>Annual Income</u>	<u>Tax-Free Portion of Payment</u>
CASH	\$4,016	\$560	67%
STOCK	\$4,016	\$560	17%



The annuity payments end at the end when the gift annuity term ends (after the lifetime(s) of the income recipients). The remaining value of the original gift, net of fees, is then given to the council chosen by the donor, either for general or specific use.

DEFERRED GIFT ANNUITIES

You may also elect to defer the start of the payments until later – for example, to start when you move into a lower tax bracket, or when you would like extra retirement income. The longer the deferral period, the higher the payout you can expect to receive. Unlike IRAs and other retirement alternatives with contribution limits, there is no limit as to how much you can place in a deferred gift annuity.

A 60 year-old donor (with a 59 year-old spouse) sets up a \$50,000 gift annuity but defers the start of the income for five years – until he retires at age 65. He gets an immediate income tax deduction of \$14,947 and, when he retires, he and his spouse will receive \$2,700 a year for the rest of their lives.

He decides to set up other gift annuities: one every year for the next five years. Each time, he receives another income tax deduction (when he most needs it), has a significant source of extra retirement income, and his council receives these gifts after their lifetimes.

CHARITABLE REMAINDER TRUSTS (CRT)

The *charitable remainder trust* is one of the most flexible and effective types of major gifts. Your gift is placed in a trust and the trust sells and reinvests the assets. The trust makes regular income payments to you and/or others for a specific number of years or lifetimes – you can decide if you want this income to start now, or in the future. The CRT may be funded with cash, stocks, bonds, land, or other assets, and you receive an income tax deduction when you create your trust.

You may choose your payout rate (within reason, of course!) and payments are based on the fair market value of the assets placed into the trust. Payments can be a specific dollar amount (*annuity trust*) or a fixed percentage (*unitrust*). Unitrusts are revalued each year – as the principal changes in value, the annual income also changes. When the trust ends, the principal goes to the Scouting entity (or entities) you choose.

Some donors combine their CRT with a “wealth replacement” strategy – for example, using part or all of the tax savings from their CRT tax deduction to purchase a life insurance policy – “replacing” the assets in the CRT, and having them pass to family members outside of the estate.

You control many aspects of the CRT. In general, the shorter the trust term, or the smaller the payout rate, the larger your charitable deduction. Also, since the assets placed in the CRT are removed from your estate, this may result in significant savings in probate costs and, for larger estates, a reduction in estate taxes.

A CRT requires a trustee, but you may choose a bank or trust company, a family member, or even serve as your own trustee. The trustee should be experienced in financial planning instruments and tax filings. You may select the BSA Foundation as trustee, if the trust is funded with at least \$100,000 or more in cash, stocks, or other securities (more for real estate).

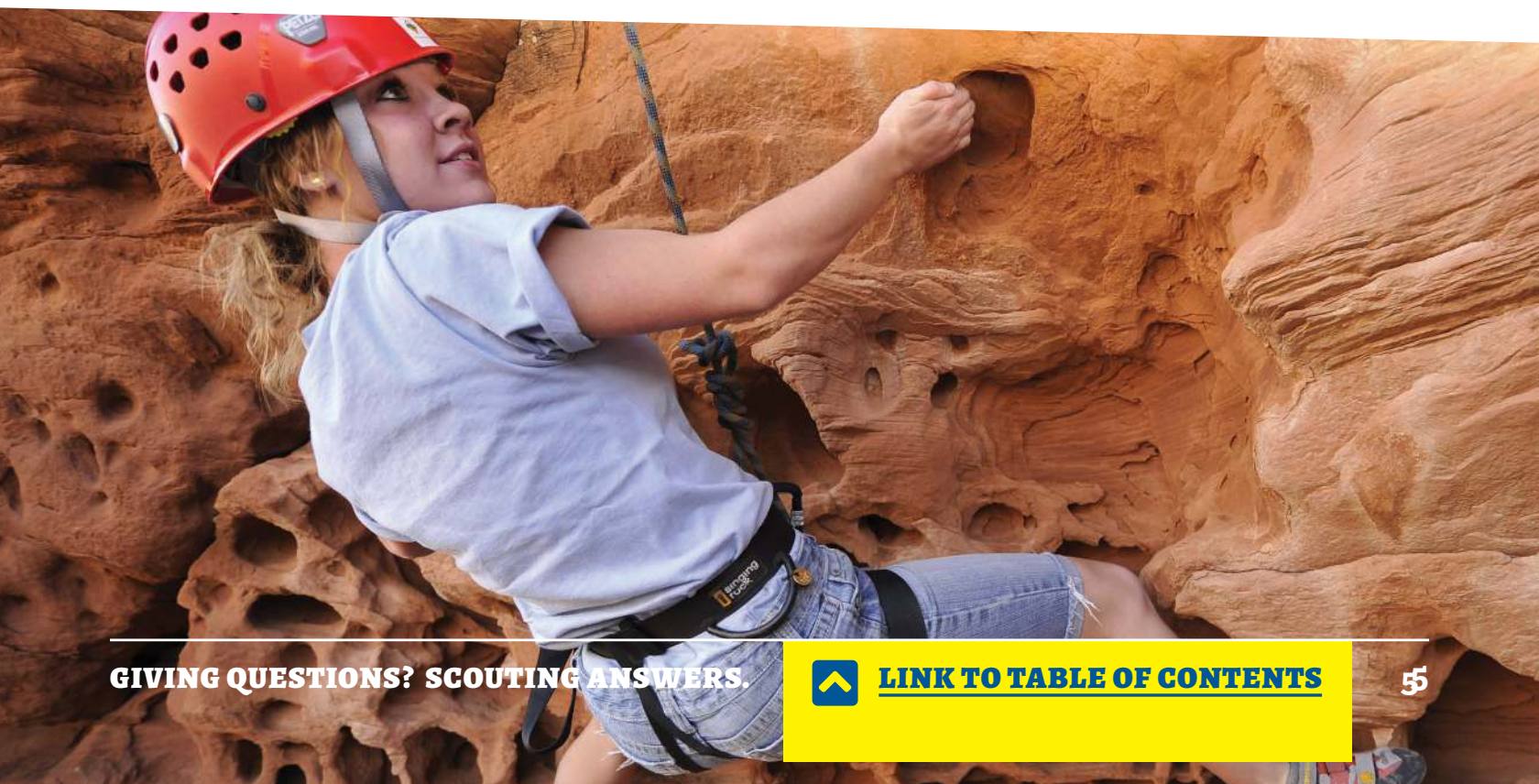
A couple has highly appreciated land worth \$300,000 (they only paid \$50,000 for it). It currently generates no income. They place it into a unitrust paying 5% annually to them for 15 years (2% annual principal growth). The benefits:

Immediate income tax deduction:	\$ 141,280
Capital gains tax owed upon gift:	0
(saves up to \$59,000 in capital gains tax)	
Total income over 15 years:	\$ 257,000
Total gift to the BSA after 15 years:	\$ 396,000

Funding a CRT with low-yielding, highly appreciated assets may increase your cash flow and avoid any upfront capital gains taxes. The timing and rates of payment, investments, type of income and other details can be tailored to provide a gift plan that is creative, fiscally sound, and responsive to your needs.

CHARITABLE TRUSTS AND RETIREMENT PLANNING

Most retirement plans limit how much you can contribute or withdraw in any given year. However, using a CRT as a “retirement alternative,” may give you much more flexibility – you are only limited by what you choose to put in the trust, and by how much income you choose to receive.



A donor, age 55, has an over funded IRA but wants to create more retirement income. He sets up a charitable unitrust now and adds \$50,000 a year in cash and/or stocks to the trust for the next 10 years. He wants a high-growth portfolio (7%) until he retires, then wants to reinvest to generate 5% a year income for the rest of his life (and 2% annual growth). The benefits:

Income tax deduction:	\$ 150,000 in the next 10 years
Capital gains tax owed upon gift:	0
Income in the first year of retirement:	\$ 41,877
Estimated total lifetime trust income:	\$ 1,657,000
Total to the BSA at end of trust:	\$ 1,457,000

CHARITABLE LEAD TRUSTS

Some think of a lead trust as a partnership between themselves and Scouting. Some see it as a “mirror image” of a charitable remainder trust. Some look at it as just a loan to Scouting. But most people agree – the lead trust is a great way to benefit Scouting now – using assets that eventually return to you, or to your loved ones, at little to no tax cost.

In a lead trust, your assets are held and invested in trust for a period you choose – either a number of years or lifetime(s). During this period, the income is paid to Scouting, as you direct. You determine how much income that will be, and trust earnings not needed for income are accumulated in the trust. At the end of the trust, the principal (and any growth) is distributed either to you or to anyone you select – tax free.

Tax deductions are largely determined by three factors: who eventually receives the principal, the term of the trust, and the annual payout. In general, if the trust returns to the donor, an income tax deduction is available. If the trust goes to someone other than the donor, only a gift tax deduction is available.

DONOR LEAD TRUST

A donor sold her business for \$500,000 in cash. She puts this into a 15-year lead trust paying \$25,000 a year to her council (pays 5%, earns 7%). She gets a charitable income tax deduction of more than \$292,000 when she creates the trust. Over the next 15 years, the council receives \$375,000, and the trust grows to more than \$750,000 in value. In 15 years, the donor receives the \$750,000 principal and growth in the trust.

FAMILY LEAD TRUST

Another donor places an identical gift into a 15-year lead trust, but he designates his children to get the trust assets when it ends. (Note: This may create gift tax issues, as a non-spousal gift). He gets a charitable gift tax deduction of \$292,000. This reduces the potential taxable gift to the children to \$207,000 (\$500,000 minus \$292,000 gift tax deduction). Plus, the donor can use part of his lifetime exclusion to offset or eliminate this tax. When the trust ends, the children get the \$750,000 principal, including trust growth – tax free.

The lead trust may greatly reduce the cost of making a large gift to children. Without the lead trust, this donor might need to leave the children more than \$1,250,000 just so to receive the same \$750,000 after taxes (and this doesn't take into account state inheritance taxes). Just as important, the council gets a sizeable, ongoing gift to use now for operating, capital, or endowment needs.



RECOGNITION FOR YOUR PHILANTHROPIC INVESTMENTS IN SCOUTING

Many local councils have their own unique recognition societies. In addition, there are also three donor recognition societies offered at the national level.



The James E. West Fellowship



Membership in the West Fellowship is available for **endowment gifts** of \$1,000 or more in cash, stocks, or bonds to Scouting. We always recommend that these gifts be made in addition to, and not in place of, the donor's annual support to his or her council.

Individuals and corporations often make these gifts on behalf of others – to honor an Eagle Scout, a retired Scouter, special accomplishment or anniversary, or in memory of another. There are also higher levels of the West Fellowship for endowment gifts of \$5,000, \$10,000, and \$15,000. If an institution is truly “the lengthened shadow of one man,” it is fitting to honor James E. West’s significant contributions to Scouting as its first Chief Scout Executive, serving in that role for 32 years.



Second Century Society



The Second Century Society recognizes donors making outright gifts of \$25,000 or more, paid now or pledged over a five-year period, or deferred gifts of \$100,000 or more (such as bequests, insurance, IRA designations, etc.). Second Century Society gifts may be for operating, capital, or endowment purposes, and may benefit one or more local councils, the Foundation, high-adventure bases or any BSA entity. Donors are recognized at one of four levels: **\$25,000 minimum; \$100,000 and up; \$500,000 and up; \$1,000,000 and up**. There is also a Lifetime Investor award for donors who can document lifetime giving to Scouting, starting at the \$500,000 level.





Presidents Leadership Council



Members of our Presidents Leadership Council receive the highest levels of personal recognition and access opportunities. These donors have made gifts of \$1,000,000 or more to or through the BSA Foundation, within a five-year period, either outright or part of an advised fund or other Foundation gift structure. Even though the gifts are made to the Foundation, donors may designate the gift to benefit any council, high-adventure base, or Scouting entity of their choice.



FOR MORE INFORMATION

To find out more about the many giving opportunities available through Scouting, as well as our other planned giving resources, seminars, and consultation or endowment recognition programs, please contact:

- Your Scout executive at your local council.
- BSA National Foundation at 800-580-2219 or bsa.foundation@scouting.org
- The Foundation's Web site at
- Our charitable gift Web site at www.bsagiftplan.org

This site includes a Gift Calculator to help you confidentially consider the tax benefits and deductions of numerous types of gifts.





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