Speaking Hope to the World

HOW TO DESIGN YOUR OWN CHARITABLE GIFT

A SPECIAL PLANNING REPORT TO ASSIST YOU IN YOUR ESTATE & GIFT DESIGN

P.O. Box 8700, Cary, North Carolina 27512

PREPARED BY: Trans World Radio

PHONE: 919.460.3700

E-MAIL: rstores@twr.org

HOW TO DESIGN YOUR OWN CHARITABLE GIFT

In today's complex world, the desire to give is important. But it is not always enough. How a gift is made and what property is used to make the gift will be closely related to the effectiveness of your giving.

In this special planning report, we want to share with you a decision making process which you can use to design your own charitable gifts to provide the greatest benefits and achieve the most effective results.

DECISION #1: HOW MUCH SHOULD I GIVE?

A very basic problem in measuring the effectiveness of our giving is that often we do not have a giving plan.

Most Christians understand "first fruits" giving. Some call it a tithe, targeted at ten percent of earnings. And we consider it a gift of worship. But few have a plan beyond this.

If you do, we bless you. If you do not, we suggest that this could be one of the most important decisions you will make in seeking spiritual maturity.

The Scriptures say, let each man determine in his own heart how much he should give. It is an individual decision, not to be dictated by guilt, nor necessarily by individual or organizational need.

Just as "For God so loved the world that He gave. . ." sets the example for our giving, "how much" should also be dictated by love.

I Corinthians 13:3 states, "If I give all I possess to the poor. . .but have not love, I gain nothing."

Do you have a long term giving plan? Is it motivated by love? If you do not, then we would challenge you to establish one.

DECISION #2: SHOULD MY GIFT BE MADE FROM CASH FLOW OR NET WORTH?

When it comes to giving, many individuals think only of what they can give from cash flow.

Many times an individual can give more from net worth than from cash flow, especially as it relates to gifts over and above first fruits giving.

And gifts of net worth are often more effective.

- Gifts of net worth may not immediately affect cash flow, and many times will not affect it in the long term, either. This is especially true of property that does not pay dividends or produce income, such as real estate, or low income investments such as many stocks and mutual funds.

  In fact, some charitable gifts of net worth can substantially increase cash flow.

- Gifts of net worth avoid the capital gains tax payable on the sale of appreciated property.

  Example: You purchased stock for $10,000, and it is now worth $20,000. If you sold the stock, you would pay a capital gains tax on the $10,000 of growth.

  However, if you gave that stock, rather than sold it, you would avoid the capital gains tax. And if you're in a 22% combined federal and state income tax bracket, your gift would result in a capital gains tax savings of $2,200.

- Many times, because of retirement, age, or change of location, you may not wish to continue to manage certain property or investments. When an asset is transferred to a charitable organization, the responsibility for management will usually be assumed by the organization.

DECISION #3: CAN I MAKE THE GIFT OUTRIGHT, OR DO I NEED TO RETAIN INCOME?

Many of our friends do not realize that they can make a gift to Trans World Radio and retain the income for as long as they need it.

This is very important if you have low-income producing property from which you need a higher income, or if you have highly appreciated property you wish to sell. If you sell the property, you will have a substantial tax liability. But if you gift the property to a charitable organization, the capital gains tax will be avoided.

In addition to avoiding the capital gains tax which would be payable if you sold appreciated property, you also receive an income tax charitable deduction which provides additional tax savings, even when you retain the income produced by the property.

And you guaranteed today that Trans World Radio will receive your gift at some time in the future.

DECISION #4: HOW LONG DO I NEED TO RETAIN THE INCOME?

You can design your gift agreement to pay income for:

- A fixed period of years -- up to twenty years,
- Your life,
- Your life and the life of a spouse or other beneficiary,
- A combination of lives plus years.

The options are very flexible. You can design your gift agreement to meet your needs.

DECISION #5: DO I DESIRE A FIXED INCOME OR A VARIABLE INCOME?

You can design your gift agreement with income to meet your personal goals and objectives.

Some people are very comfortable with a fixed income. Others are concerned about inflation, and design their gift agreements so that income will increase in future years, as the value of the assets appreciates.

In fact, many individuals design their gift agreements to receive less income than the property actually earns, allowing the excess earnings to be reinvested with the principal to provide increased income in future years. This is especially appealing if the gift agreement is designed to provide income to meet future retirement needs.

DECISION #6: DO I NEED ALL THE INCOME MYSELF, OR CAN I SHARE IT WITH OTHERS?

Many individuals design their gift agreements to continue for the benefit of a spouse. Others allow income to be distributed among family members and themselves, based upon need.

Still other individuals establish agreements to provide for a family member or some other person who is dependent upon them for income.

DECISION #7: WOULD IT BE BETTER IF ALL THE INCOME I RECEIVE IS TAXABLE, OR SHOULD I DESIGN THE GIFT AGREEMENT SO THAT I RECEIVE A PORTION OF THE INCOME TAX-FREE?

Under certain types of gift agreements, a portion of the income is automatically received tax-free. Other types of agreements can be designed so that all of the income will be tax-free.

The taxation of the income from some gift agreements is dependent upon the property transferred to fund the gift agreement.

If you transfer property which has appreciated in value and desire to avoid tax on the capital gain, it is virtually impossible for you to receive all of the income tax-free. However, if you transfer cash or non-appreciated property, this can be accomplished.

DECISION #8: DO I NEED A LARGE CHARITABLE DEDUCTION THIS YEAR, OR WOULD IT BE BETTER TO SPREAD THE DEDUCTION OVER SEVERAL YEARS?

You can design your giving program to maximize your charitable deduction this year. This is especially important if you are in a high tax bracket this year, and will possibly be in a lower tax bracket in future years.

You can also control the amount of your charitable deduction based upon the amount of income you desire. The basic rule of thumb is, the higher the income, the lower the charitable deduction.

Your gift agreement can be specially designed to meet your needs. If you need a higher tax deduction this year, then you would choose lower income. If you do not need the income tax deduction but need additional income, then you would choose a higher income.

DECISION #9: SHOULD MY GIFT BE COORDINATED WITH SPECIAL FUTURE NEEDS?

Many individuals are concerned about future income needs for retirement or educational expenses for children or grandchildren, and have found a way to combine their charitable giving programs with meeting those needs.

For example, you can establish a charitable gift agreement now, and through proper management of the agreement allow the assets to grow until retirement time, when strategy is changed and you begin to receive retirement income from your agreement.

Or you may be anticipating the educational expenses of your children or grandchildren, but have found that to sell appreciated property to meet those expenses will be very costly.

Making a gift and using the income from the gift to meet these educational needs can be a very beneficial option.

DECISION #10: DO I NEED TO COORDINATE MY GIFT AGREEMENT WITH MY ESTATE TAX PLANNING?

Many of our friends are concerned about estate taxes which will be payable at the time of death.

You can make a commitment to name a charitable organization to receive benefit from your estate. Through the proper design of a charitable gift, you can transfer assets which would have been required to pay estate taxes, to an organization such as Trans World Radio.

CASE STUDY

To provide a clearer picture of some of the concepts we have discussed in designing your own gift, let me share with you what three individuals accomplished through their giving programs.

Mrs. Smith

Mrs. Smith, is 72 years of age, and has been supporting Trans World Radio for many years.

Several years ago, Mrs. Smith purchased stocks which have proven to be a very successful investment for her, having a current value of $50,000. Mrs. Smith would now like to be relieved of her investment responsibilities, and needs more income than the dividends her stock currently pays.

She is also considering her estate plan and would like to give a portion of her estate to Trans World Radio.

Reviewing Mrs. Smith's specific needs and desires, a charitable gift agreement was designed to provide the following benefits for her.

- She will receive a annual income of $3,000, of which a portion will be received tax-free.

- Mrs. Smith will receive an income tax charitable deduction of $23,405, resulting in a current federal tax savings of approximately $7,490 in her 32% combined federal and state income tax bracket.

- Mrs. Smith originally paid $24,000 for the stock. If she sold the stock, she would have capital gains tax payable on $26,000. Because of the unique provisions of the gift agreement, capital gains tax is only payable on approximately 60% of her gain, and this amount can be prorated over her life expectancy. This will result in an actual tax savings of over $2,300.

- The charitable gift agreement will not be part of Mrs. Smith's estate, thus avoiding estate tax and probate costs.

- Taking into consideration the charitable deduction tax savings, avoidance of capital gains, and the tax free income Mrs. Smith will receive, we have calculated that she would have to earn a 9.7% return on a fully taxable investment (assuming that she is in a 32% combined federal and state income tax bracket and a 22% combined federal and state capital gains tax bracket), to equal the benefits of the charitable gift agreement.

- And Mrs. Smith has the satisfaction of knowing that she is able to guarantee her future gift to Trans World Radio, even as she increases her current income.

Mr. and Mrs. Jones

Mr. and Mrs. Jones are both 64 years of age, and are looking forward to retirement. They have been very successful in their real estate investments, and own property with an appraised value of $240,000. The property was purchased for $80,000 in 1985, and is currently free and clear.

While Mr. and Mrs. Jones believe the property to be an excellent investment, it does not provide the retirement income they need. Mr. and Mrs. Jones designed a gift agreement which they believe will be of value in helping them to meet their immediate and long-range financial goals.

Their benefits will be as follows:

- Mr. and Mrs. Jones receive the actual earnings of the agreement, to a maximum of 7% of the assets, as valued annually.
- In addition, they receive a federal income tax charitable deduction in the amount of $52,145.
- Since Mr. and Mrs. Jones transfer the property prior to retirement, when their income is higher, they are able to use the full charitable deduction, and save taxes of approximately $21,900 in their 42% combined federal and state income tax bracket.
- Mr. and Mrs. Jones pay no capital gains tax on the transfer of the property, thus providing an additional savings of approximately $35,200, assuming they are in a 22% combined federal and state capital gains tax bracket.
- Mr. and Mrs. Jones also are satisfied to know that their income will increase as the value of the assets increases in the future.
- And they receive great satisfaction in knowing that property which God has entrusted to them during their lifetimes as stewards, will eventually be used to help fulfill the mission of Trans World Radio.

Mr. Nelson

Mr. Nelson has accumulated an estate of approximately $1.5 million.

When his adviser calculated the taxes payable on his estate, he found them to be $210,000. To compound the problem, Mr. Nelson has more income than he presently needs. That income is simply accumulating in his estate, and will result in increased estate taxes at the time of death.

Mr. Nelson has decided to transfer $500,000 of his estate to a specially designed charitable agreement, established during his lifetime, which will pay income to Trans World Radio for the remainder of his life. At his death, the assets from the agreement will be distributed among his personal beneficiaries.

Mr. Nelson's benefits from the transaction are as follows:

- His taxable income will be reduced by the amount of income earned each year on the property transferred.
- The agreement is designed to pay 10% annual income, which means that Trans World Radio will receive $50,000 each year during Mr. Nelson's lifetime.
- Mr. Nelson will receive a gift tax charitable deduction equal to the value of his gift. And both gift and estate taxes payable on the transfer of the property to his personal beneficiaries will be eliminated.
- At Mr. Nelson's death, his personal beneficiaries receive the full value of his estate, free of both gift and estate taxes.

- Mr. Nelson has the satisfaction of knowing that property which he has accumulated is being used during his lifetime to support the ongoing programs of Trans World Radio.

FINAL DECISION: SHOULD I EXPLORE THE POSSIBILITIES?

This is probably an easy decision. If we desire to be the best stewards God has placed us here to be, we need to be informed.

For that reason, we have enclosed with this newsletter a "decision sheet" which you can complete and return to us.

We will then prepare a personalized proposal for you which will explain in detail what you can accomplish, based upon the decisions you have made.

We think you will find this to be exciting and fulfilling as you attempt to design your giving program to achieve maximum results.

Please take time now to complete and return the decision sheet to us.

Note: The information in this planning report is of a general nature only, and should not be interpreted as legal advice. Illustrations were calculated using a 5% mid-term AFR rate, and $1 ml tax credit equivalency. The rate in effect in the month of a transfer or in either of the two months preceding the transfer will be used to calculate the charitable deduction available for a specific gift.

© Lifestyle Giving, Inc., 2010.

DECISION SHEET

Please complete this decision sheet and return it to our office. We will then prepare a personalized proposal for you which will explain in detail what you can accomplish, based upon the decisions you have made.

Decision #1: How much should I give?

- ❑ Amount ($_____________)
- ❑ Open to counsel

Decision #2: Should my gift be made from cash flow or net worth?

- ❑ Cash flow
- ❑ Net worth

Decision #3: Can I make the gift outright, or do I need to retain income?

- ❑ Outright gift
- ❑ Retain income

Decision #4: How long do I need to retain the income?

- ❑ Period of years (_________ years)
- ❑ My lifetime
- ❑ My life plus the life of my spouse
- ❑ Combination of lives plus years

Decision #5: Do I desire a fixed income or a variable income?

- ❑ Fixed income
- ❑ Variable income

Decision #6: Do I need all the income myself, or can I share it with others?

- ❑ Income for myself only
- ❑ Income shared with ______________________________

Decision #7: Would it be better if all the income I receive is taxable, or should I design the gift agreement so that I receive a portion of the income tax-free?

- ❑ Taxable income
- ❑ Tax-free income

Decision #8: Do I need a large charitable deduction this year, or would it be better to spread the deduction over several years?

- ❏ Need a large deduction this year
- ❏ Need the deduction over several years

Decision #9: Should my gift be coordinated with special future needs?

- ❏ Provide education for children or grandchildren
- ❏ Supplement retirement income
- ❏ Guarantee future charitable gift

Decision #10: Do I need to coordinate my gift agreement with my estate tax planning?

- ❏ My estate may be taxable (Over $1 million single/$2 million married)
- ❏ My estate is not taxable

I have the following property which I would consider using to make a gift:

Type of property:		
Value: $	Cost: $	Date Acquired:
Name		
Address		
City	State	Zip
Telephone	E-mail	
Birth date	Spouse's Birth date	

Mail to:
Trans World Radio
P.O. Box 8700
Cary, North Carolina 27512

© Lifestyle Giving, Inc., 2010.