Speaking Hope to the World

WE'LL HELP YOU GIVE MORE EFFECTIVELY

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

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WE'LL HELP YOU GIVE MORE EFFECTIVELY

Once we have made a commitment to a lifestyle of giving, we must determine the level of our giving, and how to achieve that level most effectively.

At that point, several additional elements enter the picture.

- Is there a difference in how we view monthly support, compared to a one-time gift to a project or capital campaign?
- Is it better to give cash or to give property?
- What are the tax implications to our gifts?
- Should our tax savings be used to maximize our gifts or for personal benefit?

And I'm sure there are other unique questions which we need to ask as we develop our giving lifestyles.

But let's look at these particular questions.

IS THERE A DIFFERENCE IN MONTHLY SUPPORT AND A ONE-TIME GIFT TO A PROJECT OR CAPITAL CAMPAIGN?

For the Christian individual, motivation is one of the most important issues in a giving lifestyle.

Certainly, it begins with the understanding that giving is an act of worship. We then recognize God's ownership of all, not only our property but life itself. And we offer complete surrender and obedience to His will, especially as it pertains to our giving.

With this as the foundation, our giving lifestyles will normally include two distinct types of gifts.

Systematic gifts. If giving is an act of worship, as well as providing basic support for God's work here on earth, then an element of our giving must be systematic. The "first fruits upon the first day" is a theme which runs throughout the Scriptures.

Some call it a tithe, others refer to grace giving, and others might talk about personal and budgetary support. But whatever it's called, the fact remains that when we put God first in our lives, it must be reflected in our giving. If giving is truly an act of worship, it must be of our first and of our finest.

And that can only be done systematically, as a continuing act of worship.

One-time gift. While this type of gift is also unto the Lord, it might be made in recognition of God's blessing, or in accepting that we have the gift of giving and have used His assets through obedience and sensitivity to the Holy Spirit.

Individual gifts are usually designated to meet a specific need... to help the poor, a commitment to a building campaign, purchase of a vehicle for a missionary, a scholarship for a student, etc.

We might become aware of that need through a charitable organization, or through a friend. Or, we might look for the need simply because God has prospered and blessed us, and we desire to return to Him a portion of that blessing, in an act of gratitude.

While not universally true, different types of property are often used to fulfill the two types of giving mentioned above.

IS IT BETTER TO GIVE CASH OR PROPERTY?

Our second question assumes that we have decided to make a gift. Now, we must determine the asset best used to make that gift.

Gifts of Cash

In systematic giving, we generally give cash. Many of us receive weekly or monthly pay checks, or exchange the fruits of our labors for currency. And it is quite simple to take a portion of that and give it.

This is important. Our systematic gifts are often used to meet operating budget, personal support of a church or para-church organization, or support of the individual whose ministry we help make possible.

And those needs are systematic. An organization can not wait for the sale of a piece of property to provide the funds needed to pay the expenses which systematic gifts are designed to meet.

The exception to this is the individual who has property, such as common stock, which can be easily liquidated on short notice. This may be convenient property to use to meet the needs of systematic support.

Other Types of Property

In making one-time gifts, the need might not be as urgent, and we will have more time to liquidate property.

There are many benefits available to an individual who gives property, especially if that property has appreciated in value, or has a distinct use by the organization receiving it.

Whether it is real estate, stocks, bonds, mutual funds, or tangible personal property which can be used by the ministry, there are distinct advantages to making this kind of transfer.

One major advantage in making a gift of property is the ability to make a larger gift. For many of us, the desire to give exceeds the amount of money we have in the bank which is available to give.

If we have access to investments which can be transferred to fund a gift, without taking from cash flow used to meet our budgetary needs, our giving is not limited to what we can spare from our cash flow.

WHAT ARE THE TAX IMPLICATIONS OF OUR GIFTS?

Another specific advantage to gifts of appreciated property is the generous tax benefit available.

When we transfer appreciated property to a charitable organization, we receive a charitable deduction for the full fair market value of the property at the time of the transfer.

If we sell the property and then make the gift, we will be taxed on the appreciation. But that tax is avoided when we give appreciated property directly to the organization.

> ***Example:*** Mr. Jones purchased stock in 1978 for $10,000, and that stock today is valued at $15,000. If he sold the stock, he would be taxed on the $5,000 gain. In a 22% combined federal and state tax bracket, he would pay capital gains tax of $1,100, leaving only $13,900 with which to make his gift.
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> Assuming Mr. Jones made a gift of the remainder, he would realize an income tax savings of approximately $4,450, assuming he is in a 32% combined federal and state income tax bracket.

Let's assume, however, that instead of selling the stock, he gave it to Trans World Radio, and they sold the stock. Mr. Jones would receive an income tax charitable deduction for the full value of the stock, or $15,000, saving approximately $4,800 in taxes. And he would avoid the $1,100 tax on the capital gains.

Let's look at these two transactions, side-by-side.

	Sale then Gift	Gift then Sale
Fair Market Value	$15,000	$15,000
Tax on Capital Gains	1,100	0
Gift to Charity	$13,900	$15,000
Deduction Tax Savings	$4,450	$4,800
Net Benefit to Charity	$13,900	$15,000
Net Tax Savings to Mr. Jones	3,350	4,800
Combined Charitable and Personal Benefits	$17,250	$19,800

There is a considerable difference. And the greater the appreciation of the property, the greater the benefit of giving the property rather than selling it and giving cash.

Tax Rules for Gifts of Property

In this report, we can not examine all the specifics relating to taxation of gifts of property. We would like to work personally with you concerning your individual gift. But there are some general rules of which you should be aware.

- Gifts of cash or non-appreciated property are deductible up to 50% of adjusted gross income. However, when a gift is of property that has appreciated in value, that deduction is limited to 30% of adjusted gross income.

  If the gift exceeds the amount which can be deducted in one year, it can be carried over for five additional years.

- If the gift is of tangible personal property, its use must be related to the charitable function of the organization, or the deduction will be for cost basis only.

- Even though property has appreciated in value, it must be held one year or longer, or the deduction will be for cost basis and not the current fair market value.

- If property is held for a trade or business (such as real estate owned by a developer or automobiles owned by a dealer), the deduction will probably be for the cost basis of the property and not for its full fair market value.

We will be happy to work with you and your legal and tax counsel, to explore the tax implications of your gift.

SHOULD TAX SAVINGS BE USED TO MAXIMIZE GIFTS OR FOR PERSONAL BENEFIT?

Many people find joy in being able to maximize their gifts by giving their tax savings realized through the avoidance of capital gains tax on gifts of appreciated property, and from their charitable deductions.

In our example above, if Mr. Jones had made a contribution of his charitable deduction tax savings, the cost of making the gift would be slightly higher than the cost of selling the property, paying the taxes, and then making the gift. But the benefit to charity would be greatly increased.

Another Use of Tax Savings

Frequently, an individual wishes to make a substantial gift to Trans World Radio, but is concerned that the gift removes the property from the estate and therefore will not be available for personal beneficiaries.

By making the gift and using the tax savings created by the charitable deduction to purchase life insurance, the value of the policy purchased will many times be equal to or greater than the actual value of property given to Trans World Radio.

The amount of insurance coverage which the tax savings will purchase depends upon the age and income tax bracket of the donor.

There is an additional benefit if the donor's estate is taxable. Because of the unique provisions of life insurance, it may be possible to remove life insurance from the taxable estate, without creating a gift tax.

This will increase the value of the property distributed to personal beneficiaries by the amount of the estate tax payable, which is a minimum of 41% and may be as great as 55%.

WHAT IF PROPERTY VALUE IS MORE THAN THE DESIRED GIFT?

Many times an individual wants to make a substantial gift to Trans World Radio, taking advantage of the tax benefits available. But the property which would provide the greatest tax benefits may have a greater value than the desired gift.

There is a solution. It is called a "bargain sale." Trans World Radio will enter into an agreement to purchase property for the amount by which the value of the property exceeds the desired gift.

> ***Example:*** Mrs. Smith desires to make a gift of $20,000 to a project, and has property with a value of $35,000.
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> Trans World Radio enters into an agreement to purchase Mrs. Smith's property for $15,000. The remaining $20,000 is an outright gift to Trans World Radio. The purchase agreement will provide for either a cash purchase, or a note for the difference, payable upon the sale of the property.

The tax advantages described above are available on the gift portion of the property. Capital gains tax is payable only on the gain attributed to that portion of the property purchased by the charitable organization.

And the charitable deduction will be for the difference between the purchase price paid by Trans World Radio, and the fair market value of the property.

COMBINING FAMILY AND CHARITABLE GIFTS THROUGH A SPECIALLY DESIGNED TRUST

Lifetime gifts to charitable organizations can be combined with gifts to family members through a specially designed charitable trust.

If your estate is taxable, and you desire to transfer property to family members which exceeds the annual exclusion of $13,000 per year per individual, then a charitable trust can help you avoid the tax on the transfer.

Property is transferred to this trust during lifetime. Income is payable to a charitable organization for a period of years, and at the end of the trust period the property is distributed to family members.

When the payout rate and length of trust are properly combined, it is possible to avoid all gift tax, regardless of the amount transferred. Or you might choose a smaller percentage payout or a shorter period of time to avoid a portion of the tax.

> ***Example:*** Mr. and Mrs. Johnson have a taxable estate. They have approximately $250,000 in stocks and bonds that they do not need for their future security.
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> If they transfer the stock to their son during lifetime a gift tax of $70,800 will be payable, due to the fact that they have already used their tax credit.
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> Mr. and Mrs. Johnson decide to transfer the stock to a special charitable trust which pays income to Trans World Radio of $25,000 per year, for 15 years. At the end of the trust period, the property is distributed to their son free of gift tax.

This type of trust must be coordinated with your overall estate planning desires and distribution. But when properly established, it provides a very effective way to do your giving to Trans World Radio, while accomplishing significant estate tax planning results.

PROPERTY GIFTS CAN ALSO PROVIDE INCOME

There are several ways to transfer property, retaining the income it produces.

> ***Example:*** Mr. and Mrs. Wilson own property valued at $100,000, which they purchased for $20,000. They want to make a gift of $30,000, but need to maintain the $5,000 annual income currently produced by the property.
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> Mr. and Mrs. Wilson can transfer the property to Trans World Radio, who agrees to pay them $5,000 income each year for their lives.
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> Trans World Radio will then set aside approximately $70,000 to secure the income payments, and the remaining $30,000 will provide an immediate gift.
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> If Mr. and Mrs. Wilson sold the property and made a gift of the remainder, because they have a $20,000 cost basis in the property, they would pay capital gains tax on $80,000, or approximately $17,600 in taxes (assuming a 22% combined federal and state tax bracket).
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> After setting aside $70,000 to secure their income, they will have only $12,400 available to make their gift, rather than $30,000. And this will reduce the savings from their charitable deduction by approximately $5,630.

There are several different vehicles which can be used in these circumstances. We will be happy to compare these vehicles for you, relating to your specific property and income needs. Please provide us the information requested on the enclosed response card, and we will prepare a personalized response for you.

THE SAME TAX RULES MAY APPLY FOR YOUR BUSINESS

Many individuals who contribute regularly to Trans World Radio, own their own businesses, and for legal or tax purposes have incorporated those businesses. Stock in a corporation can also make an ideal gift. But it presents two unique problems.

- The charitable organization may not have a buyer for the stock, and the stock will really be of no benefit to the organization.

- The owner of a closed corporation may not want someone else to own a part of the business.

There is a good solution. The corporation can purchase the stock from the charitable organization with the following results:

- The owner receives a tax deduction for the gift.
- The individual and the business maintain ownership of all of the stock.
- The charitable organization has the cash value of the gift.
- There are no capital gains taxes payable on the transfer.

These advantages are even greater if the business has a pension plan authorized to own stock in the corporation. If this is the case, then the purchase of the stock from the charitable organization can be made with tax deductible dollars, providing additional tax savings.

Or if a business owner has accumulated earnings in the corporation, the above transaction provides a way to reduce accumulated earnings, and avoid their negative tax implications.

CONCLUSION

Whether or not you make a gift to Trans World Radio should be based upon the realization that God is the owner of your property, and your desire to be a good steward over that which He has entrusted to you.

It should also be contingent upon your belief in and commitment to our mission. You understand that we will do the very best we can to use the resources entrusted to us, just as you are working to be the very best steward over those resources which God has entrusted to you.

Once you have made a commitment to make a gift, the form in which that gift is made, the tax implications and the planning of that gift to maximize its benefit for Trans World Radio and for you, are important elements of being a good steward.

That is why we are also committed to help you in planning your gift to provide maximum benefits. We are available to work with you and your legal and tax counsel.

I've enclosed with this report a response form which you can use to share with us your giving desires. If you will complete the information concerning the property you have available to meet those desires, we'll be happy to prepare side-by-side comparisons for you, illustrating how they can best be accomplished.

We want to help you give more effectively, and we look forward to that opportunity.

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. 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.