Lower Providence Presbyterian Church

Lifetime and Deferred Giving Alternatives

Lifetime v. Deferred

In general, the giving alternatives that will be described below can be broken down into two main categories: those that one makes during their lifetime and others which generally are only made as part of an estate plan occurring after death.

Lifetime Alternatives

Gifts of Appreciated Property

In discussing this item, it is important to understand that the word "property" is used in a general legal standpoint and is not intended to mean only real estate. Anything which a person owns which has an intrinsic value is considered property. Accordingly, investment assets, such as stocks and bonds as well as real estate would all be considered property for these purpose.

If you wanted to make a charitable gift to LPPC you could sell property that you own and use the proceeds to make a charitable gift in cash. However, if the property has increased in value during the time you have owned it, this increase in value will be considered capital gain that will require you to pay income tax on the capital gain you received when you sold the asset. Alternatively, you can make a direct gift of the asset by assigning the ownership to LPPC and get a charitable deduction for the reasonable fair market value of the asset, without recognizing capital gain and, more importantly, not paying tax on the gain. The Church can then sell the property and not incur any tax, because it is a charitable organization that is not required to pay tax on its income.

It is advisable to discuss with the Church's treasurer your plan to make the donation before doing so. This is especially important with respect to donations of either real estate or tangible personal property (such as artwork or collectables) to make certain that the Church desires to receive the gift. Of equal importance is the requirement to obtain a written appraisal of the value of the donated property if it exceeds more than $5000 in value. This is not required for investment property that is traded on a recognized exchange, however.

Retirement Funds

You might ask, I have as yet untaxed income in retirement accounts, can I assign these to LPPC? The general answer to this is no, since retirement fund assets can only be paid to the participant, however, these can be part of deferred giving in an estate plan that will be discussed later. While a retirement account itself cannot be lifetime assigned to a charitable organization, it is now possible to make gifts from a retirement account to LPPC that are known as qualified charitable distributions ("QCDs"). The requirements for QCDs are:

1. The Participant/taxpayer must have attained the age of 70 ½.
2. The contribution must come from a traditional IRA account, or a SEP IRA or a SIMPLE IRA, provided that neither of these latter 2 accounts have received a contribution from the participant for the tax year in question. QCDs cannot be made from a 401(k) or 403(b) accounts. However, funds rolled over from a 401(k) or an active SEP or SIMPLE account into a traditional IRA account can be used to fund QCDs. QCDs cannot be made from Roth IRA accounts either.
3. QCDs can be made from inherited IRA accounts, provided the contributor has attained the age of 70 ½.
4. There is an annual limit of $100,000 for QCDs.

Why consider making a QCD:

1. At age 70 ½, a person with retirement accounts must take into income at least the required minimum distribution (RMD) from the aggregate value of all of their retirement accounts, other than Roth IRAs. Any amount made in the form of a QCD satisfies the RMD and therefore is not included in a person's adjusted gross income for tax purposes. In addition to generally lowering taxable income this may help keep income below levels that could cause higher amounts of social security benefits to be taxed and possibly avoid investment income being hit with the 3.8% Medicare surtax.
2. QCDs deliver a tax benefit where other charitable contributions might not. With the significant increase in the standard deduction created by the Tax Cuts and Jobs Act many individuals and couples no longer benefit from itemized deductions, including charitable contributions that do not exceed the amount of the standard deduction. For many making charitable contributions will not reduce their taxes by more than the standard deduction. By contrast, QCDs produced the equivalent of a charitable deduction which is enjoyed in addition to the standard deduction.

3. For any taxpayers who have retirement accounts that contain both pretax and post-tax contributions, the QCDs are deemed to come first from the portion of the account that is considered as yet untaxed income, which can preserve the tax-free funds for later withdrawal by the taxpayer or his/her heirs.

Tax Deferred Annuities

Annuities that are purchased from insurance companies or financial companies often have the feature that income earned inside the annuity is deferred for income tax purposes until withdrawal. These accounts have at least a partial as yet untaxed income aspect. Since they are not qualified retirement funds, they can be assigned to a charity and the donor will receive a charitable deduction as well as avoid being taxed on the deferred income in the annuity.

Deferred Giving Opportunities

Gift of Life Insurance

Life insurance can be an important asset to own to make certain that your family has adequate resources in the event of your death. However, the time may come when you may have acquired sufficient other resources in retirement accounts or other savings, so that some or all of your life insurance may be unnecessary. If this is the case, you have a number of options to use your life insurance to help the Church:

1. You could continue to maintain the life insurance in force and name the Church as a beneficiary to receive funds upon your death. Keep in mind that this is not an "all or nothing at all" alternative. The Church could be named to receive a portion of the insurance proceeds, with others receiving the balance, whether they be family members, or other charities.
2. If the policy requires the continuation of the payment of premiums which you no longer desire to make, the policy may allow you to convert it to a paid-up policy of a lesser face amount. This paid-up policy can then be assigned to LPPC as the new owner, who could then change the beneficiary to the Church, or possibly cash the policy in for any surrender value.

Gift of Retirement Assets

Once a participant has died, retirement assets can be made payable to a charity. This can be beneficial from an estate planning standpoint. First, it reduces the taxable estate. A beneficiary of retirement assets is required to receive the untaxed income as part of their own income in accordance with the schedule determined by the IRS, so there is an income tax aspect to this inheritance. If the beneficiary is other than the spouse, at least for Pennsylvania purposes, they are also required to pay Pennsylvania inheritance tax on the retirement asset. Both of these taxes are avoided if the retirement asset is contributed to a charitable organization, such as LPPC. Assuming the deceased contributor intends to make charitable contributions in any event, it can be more advantageous to make them in the form of retirement accounts, rather than other assets that do not have an untaxed income component.

Gifts Made by Last Will and Testament

Of course, direct monetary contributions can be made to the Church by inclusion in the last Will and Testament. These gifts can either be of a specific dollar amount, or can be a portion of the residuary estate. Gifts can be made outright, or could be designated for specific purposes either by contributing to an established fund within the Church or, if the gift is substantial enough, to fund a specific endowment. Any contemplated endowment funding should be discussed with the Church's treasurer in advance to make certain that appropriate arrangements can be made.

In certain circumstances, it can also be appropriate to consider charitable gifts through trust arrangements. In general, there are 2 major types of charitable trust arrangements:

1. Charitable Remainder Trust. This is a trust that would benefit one or more individuals during their lifetimes and then upon their deaths would have the balance paid to the Church. Generally, the lifetime interests are only paid out of income, so that the principal is preserved for the charity. These types of arrangements are made where the donor feels that the life beneficiaries are in need of support, but would not need to consume trust principal, which can eventually go to charitable uses.
2. Charitable Lead Trust. This is basically the opposite of a charitable remainder trust. In this arrangement the charitable organization receives the income from the trust principal for a term of years. At the end of this term, the trust terminates and distributes the principal to other beneficiaries, often individual beneficiaries, but it could be to other charities. This type of arrangement is sometimes used as a planning option with grandchildren. The charity receives the income for a term of years and then the grandchildren receive an inheritance that is deferred into the future, perhaps as an augment to their retirement or at a point in time when they may benefit from having more maturity.

Both of the foregoing charitable trusts provide the added benefit of the estate of the donor receiving a charitable deduction which can have the effect of lowering some of the inheritance tax.