Charitable Planning Option Examples

Example of a Deferred Payment Charitable Gift Annuity

Consider the hypothetical example involving Susan, a 55-year-old accomplished sales executive and supporter of Lake Junaluska. She is looking ahead to retirement and wants to make certain that she has sufficient annual income at the time she retires from her company. To supplement her taxable investments, Susan has decided that a deferred payment gift annuity would accomplish two of her primary objectives: to assist Lake Junaluska and to provide retirement income for herself. Susan is in the 32% income tax bracket.

For purposes of this illustration, we will assume that Susan currently does not need the income that could be produced by a traditional investment of $50,000 and uses that amount to purchase a deferred payment gift annuity. Further, she decides that she wants to begin receiving annual income from the annuity when she reaches age 68, by which time she plans to retire. During this 13-year period, when Susan does not receive income, the investment accumulates in value on a tax-deferred basis. Then, at age 68, when Susan begins receiving income from the deferred payment gift annuity, a portion of it will be tax-free.

The approximate results of this transaction are summarized as follows:

1. Principal amount for deferred payment gift annuity	$50,000
2. Number of years payment is to be deferred	13
3. Annuity rate	6.8%
4. Annual annuity payments beginning in 2032	$3,400
5. Amount of annual annuity payment excluded from taxes	$1,895
6. Tax deduction in year of gift	$16,836
7. Current year tax savings at 32%	$5,388

**Note that this illustration assumes a rate of return that may not be applicable when an actual deferred gift annuity is established.*

In this example, Susan makes an outright gift of $50,000 to Lake Junaluska now, during a time when she is earning, and her taxes are higher, and guarantees income in her retirement years when she will presumably be in a lower tax bracket. She has also removed $50,000 from her estate, thus reducing potential estate tax liability, if applicable, when she dies. Alternatively, Susan could have funded a series of gift annuities for $10,000 each year for five years. This planning strategy takes advantage of the fact that payment rates may increase with each new annuity entered into at an older age. A "flexible" deferred gift annuity would allow Susan to take the annuity earlier or later than the target date of 13 years.

Example of a Charitable Remainder Unitrust

In another hypothetical example, we find Jon who has just reached retirement age and realizes that several of his investments do not yield the income he desires. Also, since these long-term investments have appreciated significantly in value, he will have to pay a substantial capital gains tax if he sells them. A possible solution to this dilemma is a charitable remainder unitrust.

Situation: Jon has stock he purchased in 1996 for $20 a share. Today it sells for $200 a share. It is paying Jon an annual dividend of 2%. In retirement, Jon needs more income, but if he sells the stock, he will pay at least a 15% capital gains tax plus any applicable state income taxes on the $180 gain in price of each share since he purchased the stock. Jon's federal capital gains tax could be as high as 20% if he is in a high tax bracket.

Solution: Jon creates a unitrust with a 5% annual payout, naming Lake Junaluska as remainderman, and transfers his stock to the unitrust. The unitrust sells the stock and replaces it with assets that allow the unitrust to pay the 5% annual amount.

Advantages to Jon:

- His annual income from the asset has nearly tripled.
- He avoided paying immediate capital gains tax. (If the annual ordinary income generated by the unitrust is below 5%, the difference between the ordinary income and 5% will pass through to Jon as capital gains until all the capital gain inside the unitrust flows out to Jon over the years.)
- Jon receives an immediate charitable income tax deduction for the present value of the trust remainder, computed based upon his age, current interest rates, and the current fair market value of the stock when the unitrust is funded.
- Jon's income will increase if the value of the trust grows over time.
- Jon is pleased to know that at his death the remaining trust assets will benefit Lake Junaluska.

More information about these types of giving opportunities can be found in our Spring 2022 Estate Planning Newsletter.