

ESTATE PLANNING TOOLS FOR EFFECTIVE CHRISTIAN & CHARITABLE GIVING

Adapted from materials by Dick Edic of www.VisionResourcingGroup.com

In 2 Kings 20:1, the prophet Isaiah went to King Hezekiah and said, *“Put your house in order, because you are going to die; you will not recover.”* Basically, God was telling Hezekiah to complete his estate planning, so that when he died, his wishes could be carried out by those who survived him. Proverbs 13:22 says, *“A good man leaves an inheritance for his children’s children.”* Estate planning is the process of planning your estate in such a way that after you die, it properly affects the people in your life, transfers your property efficiently while minimizing probate and tax expense, and guides those who will assist you in achieving your goals. It involves the right legal documents that will direct those in the process of settling your estate. Included in this process is the opportunity to leave a charitable gift. This is the sacred privilege given us by God to continue giving to His kingdom ministries after we are gone.

Here is a list of helpful tools for giving gifts from your current assets or estate plans.



Bequests A bequest through a will or trust is the most common type of planned gift. Almost every adult should have a will or living trust, and every Christian should at least consider making gifts to their church, ministries, and favorite charities through his or her estate. Since everything a person owns (during life and at death) belongs to God, a Christian should distribute the estate to family members, friends, and ministries that will use those assets in a way that honors the Lord. A gift through a will or trust can be a specified dollar amount or a percentage of the estate. Since the final size of the estate is uncertain at the time the will is written, it is often more desirable to use percentages than dollar amounts to describe how the estate is to be distributed. One of the benefits of a will or trust is that it can be changed at any time. A person can reevaluate his or her giving priorities as family and financial circumstances change over time. Any gift through a will or trust to a qualified charity is deductible for Federal Estate Tax purposes.

Life Estate Gift A person may deed a personal residence, farm, or other real property to the Lord’s work now, but retain lifetime enjoyment and use of the property. The person may continue to live in the home. In the case of other property, the person may continue to collect any income generated. The person continues to pay the taxes, insurance, and maintenance of the property. At the person’s death, the property becomes the immediate property of the church, ministry, or charity. If desired, the church or ministry may sell the property and use the cash proceeds. In the case of a personal residence, the church or ministry may decide to keep the home for use by pastoral staff or visiting missionaries, or ministry expansion. An irrevocable Life Estate Gift will generate a tax-deductible gift based on the “remainder interest” the person holds in the property. This value is determined according to government tables and the person’s age. This amount may be claimed as a deduction for Federal Income Tax purposes in the year the agreement is completed. This arrangement removes the property from the estate, and it will not be subject to either probate or the Federal Estate Tax.

Life Insurance Gifts Life insurance is one way of making a larger gift than a person may be able to make otherwise. This gift option is available for both new and existing policies. If done properly, the annual premiums paid on the policy can be deducted as a charitable gift for Federal Income Tax purposes. Life insurance proceeds are included in the gross estate for calculation of the Federal Estate Tax. If the beneficiary of the policy is a qualified charity, there is a charitable deduction for purposes of the Federal Estate Tax. Sometimes people have old life insurance policies they no longer need. They may be paid-up policies with significant cash value. These policies can be gifted directly to a church or ministry, who in turn can decide whether to cash them out or wait until it receives the death benefits. Another option is to encourage people to add their church or a ministry as one of the beneficiaries of an existing policy. Some people also choose to use the concept of “tithing” their life insurance proceeds just like in their will or living trust. They do this by changing their beneficiary designations.

Charitable Remainder Unitrust is designed for the person who wants to make a gift to the Lord’s work, but needs income during life. This trust is especially suited for a person with highly appreciated property (either securities or real estate). It is possible to transfer the property to the trust and avoid all tax on capital gain. A Federal Income Tax deduction is available for the year the trust is created. It is based on the value of the trust, the age of the person, and the payout percentage selected. A Charitable Remainder Unitrust may be created and funded at the time of death for the benefit of one or more survivors. Assets transferred to the trust would not be subject to probate or the Federal Estate Tax. One or more Christian or charitable beneficiaries may be named in the trust. At the death of the person, the assets from the trust would be distributed to these charities. The Charitable Remainder Unitrust is one of the most technical gift plans, and requires expert help to both set up and manage. Your church’s denominational foundation or independent counsel should be able to assist from the beginning to the end of this process.

Charitable Lead Trust is almost the opposite of the Charitable Remainder Unitrust. The person creates a trust to provide current income to a charitable organization for a specified period of time (5, 10, 15, or more years). At the end of that time the assets of the trust are returned to family members. The Charitable Lead Trust may help wealthy families transfer assets to heirs, with little or no estate or gift tax. Seek professional counsel.

Gift Annuity Agreement - Deferred Gift Annuity Agreement is a perfect plan for a person who wants to make a future gift and receive a guaranteed stream of income for life. Annuity rates are based on age, and often are quite competitive with what a person can earn from low risk investments in the market. A deferred payment annuity allows for payments to begin at a later day (such as at retirement), and results in both a larger charitable gift and a greater annual income. Both immediate and deferred annuity plans are an excellent means of “supplementing” retirement income, but are not meant to be retirement plans.

Charitable Gift Annuity is less complicated than a Charitable Remainder Unitrust (CRUT), but the CRUT has greater flexibility and applications. This plan provides a Federal Income Tax deduction in the year that the annuity is entered. The amount of the gift is determined by the age of the annuitant, the annuity rate, and the principal amount. Another advantage of the gift annuity is that part of the annual income is considered tax-exempt. Also, if the annuity is funded with appreciated securities, there is significant savings related to capital gains tax. A portion of the capital gain is avoided altogether, and the remainder is reported in small increments over the life expectancy of the annuitant. All remaining funds in the agreement at the annuitant’s death are available for the ministries designated by the person. The amount placed in the annuity during life is removed from the estate and will not be subject to probate or the Federal Estate Tax. NOTE: The Gift Annuity Agreement and Deferred Gift Annuity Agreement are less complicated than the Charitable Remainder Trust. However, few churches or ministries would be able to administer their own annuity program. Again, refer to your denominational or independent counsel, or get help from the National Christian Community Foundation (www.NationalChristian.com 800-681-6223) in Atlanta, GA who can provide planned giving administration services.

Living Trust is a good “will substitute” estate-planning tool for some families. Such a trust can be written to include a charitable bequest, just like in a will. Assets in the trust are distributed according to the terms of the trust and do not pass through the probate process.

Naming a church or ministry as a beneficiary One easy method of making a planned gift is by naming the church, Christian ministry, or charity as beneficiary of any account that allows such a designation. A checking account or savings account would be one example. In a banking situation, this is often known as a Pay on Death (or POD) account. Some institutions may refer to this arrangement as Transfer on Death (or TOD). These arrangements allow for the assets to pass directly to the named beneficiary and avoid the probate process.

Retirement plans allow the owner to name a beneficiary, or beneficiaries. At the death of some high wealth individuals, there may be two taxes levied against a qualified or tax-deferred retirement account—income and estate. These taxes can be avoided if the “secondary” beneficiary of the plan is a qualified charity. This is “win-win” because family members would end up inheriting the same amount or more when using this tax strategy. With married couples, when a spouse dies, the “primary” beneficiary is usually the other spouse. The surviving spouse could then “roll” the tax-deferred retirement account into a personal tax-deferred retirement account and continue to defer any income taxes. When he or she dies and the proceeds of the account go to a “non-spouse,” like children, that becomes a “taxable event.” Current tax laws allow children to “stretch out” their receipt and subsequent taxation of the proceeds. However, by naming a church, ministry, or charity as the “secondary” beneficiary, some or all of potential income taxes can be avoided. Since other assets in the estate may not be subject to income taxes at death, such as cash, life insurance or real estate, consider “using” the tax-deferred retirement account for any charitable gifts and pass the other assets to children or friends.

Automatic Transfers at death are often referred to as “will substitutes” because they bypass distribution through the will. Such transfers avoid the probate process. These assets will avoid the Federal Estate Tax when transferred to a qualified charity. Examples are joint tenancy, life insurance, IRAs and business agreements.

Endowment or Scholarship Funds can be set up so that members can make current or deferred gifts into the endowment or scholarship fund knowing that it will annually give from the earnings of the investment portfolio in the fund. These funds can produce an economic “hedge” against hard times.

Outright Gifts (other than cash) Gifts other than cash can be a significant benefit to a local church or ministry. Such gifts might include stocks, bonds, mutual fund shares, real property, or tangible property. Transfer of ownership will often require some form of legal document. There are special Internal Revenue Service rules for valuing and reporting non-cash gifts. The tax-deductible value of some gifts will be limited to the person’s cost basis or the Fair Market Value (whichever is lower). You will be allowed to deduct the full value of some gifts (including all appreciation), and will avoid any tax on capital gain. Any property given during life will be removed from the estate, and will not be subject to probate or the Federal Estate Tax.