Oklahoma Disciples
FOUNDATION, INC.

ESTATE PLANNING/PLANNED GIVING

September 2019

WHAT'S IMPORTANT

- Write down the three most important things in your life that you want to not only survive you but prosper when you are gone.
- Many people will have written down spouse, children and/or grandchildren
- Some will have written down schools, churches, or other institutions
- A few of you will have written down your businesses
- A few may have even written down intangible things like values.
- Taking a wild guess I doubt any of you said it was important for you that the Federal and State taxing authorities live on long after you are gone.
- Having an estate plan is important

PLANNING

- Good stewardship does not stop at death
  - "A good man leaves an inheritance for his children's children, . . . " Proverbs 13:22
- No plan means the State decides for you what is important.
- Even if you plan, 90% of estate plans fail.
  - Shirtsleeves to shirtsleeves in three generations
- How can we take action and avoid failure
  - Look at the 10%

AVOID FAILURE

- Estate planning has always centered on planning the disposition of wealth
- Successful families do estate planning centered on passing values from one generation to the next.
- Passing wealth is an adjunct to passing values not an end in and of itself
- Passing values involves the passing from one generation to another of a family identity

Inheritance

"Now, Israel, hear the decrees and laws I am about to teach you. Follow them so that you may live and may go in and take possession of the land the LORD, the God of your ancestors, is giving you. . . .

5 See, I have taught you decrees and laws as the LORD my God commanded me, so that you may follow them in the land you are entering to take possession of it. . . .

9 Only be careful, and watch yourselves closely so that you do not forget the things your eyes have seen or let them fade from your heart as long as you live. Teach them to your children and to their children after them. . . ."
Deuteronomy 4:1-10

The Stewardship of Values

- Command those who are rich in this present world not to be arrogant nor to put their hope in wealth, which is so uncertain, but to put their hope in God, who richly provides us with everything for our enjoyment. 18 Command them to **do good**, to **be rich in good deeds**, and to **be generous** and **willing to share.** 19 In this way they will lay up treasure for themselves as a firm foundation for the coming age, so that they may take hold of the life that is truly life. (Emphasis added)

    - 1 Timothy 6:17-19

What Values?

- Write down the three most important values in your life
- Probably not your most important values
- Process for discernment of values
  - Who was most influential in making you who you are?
  - What was it about them that influenced you?
  - What do you want to pass on to future generations that they gave you in terms of values?
- How can you pass these on?
- How does your wealth connect to these values if at all?

Identity

- Christian values = Christian identity
- Wealth is an adjunct to our lives

Who has been successful in tying Christian identity to the passing down of wealth?

- Church buildings
- Church endowments
- Church Camps
- Church Missions – Universities, hospitals, homeless shelters, disaster relief, food pantries, etc.

An Estate Plan

- Will
- Trust
- Durable Power of Attorney
- Beneficiary Designations
- Personal property distribution directive.
- Healthcare directive

Ordinary Estate Plan Objectives

- Distribute Assets
  - Who are your heirs?
  - What do you want them to have?

- Avoid taxes

Taxes

- Estate Tax
  - $22.8 Million Dollar estate tax exemption for married couples
  - $11.4 Million Dollar exemption for individuals

- Income tax
  - All traditional IRAs, 401(k)s, 403(b)s, etc.
  - Any retirement account subject to income tax on withdrawals during your life.

TRUTH

- Taxes now are not the major topic of discussion with your attorney for most estates
- Attorneys, accountants, financial advisors all presume your highest desire is to give everything you have to your legal heirs.
- Most attorneys and other advisors will not bring up gifts to charity because they believe you do not want them to.
- Most of us have only given thought to which of our heirs should get our estate and we either don’t think about giving to charity or expect our attorneys and advisors to bring the subject up.
- Money detached from values quickly disappears

Extraordinary Estate Plan Objective is to Fund the Values

- Enough given to heirs to enable them to prosper but not so much they flounder.

- Give to causes and institutions important to you.

- Establish ways of giving for heirs to participate

Suggestions for giving to heirs

- Talk frankly with heirs.
- Evaluate needs vs. wants
- Reflect on what you want to accomplish
- Reflect on the values you want to pass on
- Seek advice

Results

- Maybe your heirs need every cent you can give them.
- Maybe your heirs need nothing from you other than your love
- Maybe your heirs need to see who you are and what you believe.
- Maybe your heirs need to be encouraged through your estate planning to find their own values

Planned Giving

- Tools to enable estate plan success
- Expression of values
- Training of future generations

Planned Giving/Stewardship

- All planned gifts begin with a charitable intent
- All properly planned gifts seek to maximize the impact and minimize the cost of a gift.
- Tax benefits are not the goal they are a result.
- Planned gifts are intended to "make a difference"

The Planned Giving Toolbox

- Lifetime Giving
- Bequest
- Beneficiary designation
- Donor Advised/Field of Interest Funds
- Private Foundation
- Life Estate
- Gift Annuity
- Charitable Remainder Trust
- Charitable Lead Trust

Lifetime Giving

- Pledged giving
- Gifts of appreciated securities
- Gifts of appreciated real estate
- Gifts of other assets

- Two major advantages
  - Donor gets to see the good done with the contribution
  - Donor could receive a significant income tax deduction while avoiding paying capital gains tax on the assets

Example

- Mrs. Jones owns Microsoft stock that she bought in 1990 for one dollar ($1.00) per share. She decides to endow her church with 1000 shares. The shares are worth about $135,000 today. If she sells the shares and gives the money to the church she will owe capital gains tax on the difference between her basis ($1,000) and the sale price ($135,000). If she is in the 20% bracket she will have to pay $27,000 in Federal tax plus whatever State and local taxes may apply. **If she gives the stock to the church outright without selling it then no tax will be due on the gift but she will still get a $135,000 tax deduction.**

BEQUESTS

- If you are single and your estate is worth more than $11,400,000 then there may be estate tax savings available for a charitable bequest. If you are married and your estate is worth more than $22,800,000 then there may be tax savings from a charitable bequest.
- The benefit of a charitable bequest is to evidence a final devotion to your church or a mission of the church.
- It allows you to be generous.
- It tells your children or other heirs your values when it comes to your spirituality and sets an example for them.
- It is easy.

Example

- I hereby give, devise and bequeath to Yale Avenue Christian Church all the rest, residue and remainder of my estate.
- I hereby give, devise and bequeath to Yale Avenue Christian Church ten per cent (10%) of my estate.
- I hereby give, devise and bequeath to Yale Avenue Christian Church that certain real and personal property described as follows:
- I hereby give, devise and bequeath to the Oklahoma Disciples Foundation, Inc., EIN #73-6108837, all the rest, residue and remainder of my estate as an endowment for the benefit of Yale Avenue Christian Church in accordance with the endowment agreement on file with the Oklahoma Disciples Foundation.

BENFICIARY DESIGNATIONS

- As easy as filling out a form.
- Regardless of the size of your estate there may be tax advantages for designating a charity as a beneficiary of a traditional IRA or 401(k) or similar plan.
  - Income tax will be payable on IRAs and 401(k)s unless the money is donated to charity.

Example

- Mrs. Smith is widowed and has real estate and stocks and bonds worth $4,000,000 as well as an IRA worth $400,000. Upon her death if she leaves 10% of her estate (excluding the IRA) to charity with the remainder plus the IRA to her heirs then the charity gets $400,000, the heirs get $3,600,000 tax free but then also get $400,000 they have to pay tax on. **If Mrs. Smith gives the Charity the IRA, however, then the Charity still gets the IRA but the heirs now get $4,000,000 tax free.**

Donor Advised/Field of Interest Funds

- Sum of money or property given to a charitable organization such as the Oklahoma Disciples Foundation
- Donor typically aggregates several years of planned giving and gets an itemized deduction in the year of contribution
- Donor and donor's designees direct the distributions to the charitable cause or entity of their choice.
- Donors often use these funds to involve children and grandchildren in the joy of charitable giving.

Example

- Mr. Brown is married and gets close to being able to itemize on his tax return but does not quite reach the $24,000 standard deduction. He and Mrs. Brown would also like to teach their child Tommy about the joy of giving. The Browns create a Field of Interest Fund with the Oklahoma Disciples Foundation by depositing $200,000 and treating it like an endowment. The first year they get a tax deduction equal to 60% of their income up to $200,000 and can carry forward unused amounts. Each year thereafter they get to direct the distributions (about $9,000) to the church entity or program they are passionate about. If they want to give away more they can. They have named Tommy as an authorized person to direct up to $X to whatever he is passionate about in the church.

Private Foundation

- Corporate type entity qualifying under the IRS code
- Usually only makes sense for the extremely wealthy who want absolute control.
- IRS rules require 5% expenditure each year and limit the deductibility of certain gifts
- Legal and accounting expenses can be quite high
- For most people a Donor Advised Fund or Field of Interest Fund has greater advantages.
  - No minimum distribution required
  - Anonymity
  - No ongoing expense other than money management fees.
  - Greater deductibility of gifts of property.

Life Estate

- Convey Real Estate to charitable entity and reserve a life estate.
- Charity owns the property completely at donor's death.
- During Donor's lifetime they get the use of the property plus a tax deduction for the discounted value contributed.
- Donor typically pays taxes and insurance

Example

- John owns a piece of land he uses for hunting. He bought the land for $100,000 twenty years ago. The land is worth $300,000 today. He decides to give the land to the Oklahoma Disciples Foundation but reserve a life estate. John will get to use the land for his lifetime and will get a tax deduction for the discounted value of the remainder interest he is giving the Foundation. The discount will be based on John's life expectancy at the time of the gift. He will not pay any capital gains tax but he will have to continue to pay ad valorem taxes and insurance during his lifetime.

GIFT ANNUITIES

HOW TO HAVE YOUR CAKE AND EAT IT TOO

- Money or appreciated assets given to Foundation in exchange for income payments to beneficiaries for life
- Remainder interest to Foundation or chosen endowment
- Tax deduction for Donor
- Income partially taxed

- No annual revaluation
- Fixed amount paid each year
- General obligation of the Foundation

Example

- Mrs. Brown, age 89, wants to create an endowment for her church but she needs income from her assets to live on. She was going to sell 500 shares of stock she bought years ago for $1 per share that is now worth $101 per share. She would have to pay capital gains tax on the $50,000 of gain. Instead she decides to buy a gift annuity with an agreement that any remainder interest would be used to fund the endowment for her church. Based on her age and current rates she would receive $4,646.00 per year every year for the rest of her life. She would also receive a $30,166.78 tax deduction. Depending on markets and investments her endowment should receive about $25,000 on her death. That should generate $1,125 per year for her church **forever.**

Charitable Remainder Unitrusts

- Trust established by Donor
- Typically the Foundation is Trustee
- Donor and/or spouse is typically the beneficiary for life or a term of years.
- Donor receives a tax deduction for money or property placed in the trust
- Donor is periodically paid a fixed annual percentage of the value of the trust
- The trust is valued annually
- Upon the death of the last beneficiary or term of years the trust value becomes the property of the Foundation
- CRATs, NIM-CRUTs, Etc.

Example

- Wilbur has been very successful in business and wants to transfer the business to his daughter. He also wants to endow his church. He creates a charitable remainder trust and donates 25% of the stock in his business to the trust. The trust will pay him an annual income. He will get a deduction for the present value of the gift. The business will buy the stock back from the trust. His daughter will buy the rest of the stock in the company with a promissory note based on the reduced value of the company.

Charitable Lead Trusts

- Do not try this at home

- Reverse of the CRUT
- Income to Charity with remainder to Donor or Heirs
- Very complex
- Requires professional legal advice
- Qualified/Nonqualified, Grantor/Nongrantor, Inter vivos/Testamentary, Annuity Trust/Unitrust, etc . .

Example

- Seek advice about these trusts when:

- You win the lottery or receive a large lump sum of income during a single year and your income is going to be less in future years
- You want to minimize estate and gift taxes to your heirs and you have excess income generating property
- You want to benefit your chosen charity but you don't want to permanently give up your assets.
- You want to give to a foreign charity.

LEGACY

- Planned gifts can be single lump sum gifts or they can be used to create a Legacy
- Legacy is the purpose of the Oklahoma Disciples Foundation
- Endowments are legacy creators
  - Individuals
  - Churches
- The ultimate legacy
  - Perpetual funding for the missions and ministries of the Christian Church reflecting your values as a part of the Body of Christ

QUESTIONS

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