

# Blended Gifts

Accommodating Changing Times

Joseph H. Deary

Thursday April 21, 2016

# Then and Now

## Then—in wealth management days

### Outright Major/Principal Gifts

- Giving away their inheritance
- Very low cost securities

### Planned Gifts

- Bequests
- Income producing gifts

## Now

Seeing more blended gifts even among the very wealthy

# What is a Blended Gift?

Cash/Securities

and

Planned Gift

- Bequest
- Charitable Gift Annuity
- CRUT or CRAT
- Insurance

# Growing a Gift

- A gift of \$5M becomes a naming opportunity of \$10M
- How did we get there?
- Three Gift Options
  1. Cash and a one life CGA at 7.9%
  2. Cash and two life CGA at 4.9%
  3. Cash, one life CGA at 7.9% and a bequest

In the end---all cash

# Naming Opportunity for John and Jane Doe

## Fixed Facts

- Charity would require 50% of the gift in cash or marketable securities
- ANNUITANTS—John and Jane Doe
- ACTUARIAL LIFE  
8.3 years (single) and 17.2 years (joint)
- INCOME-TAX BRACKET  
43.4% ( 39.6% rate + 3.8%+ surcharge)
- 10-YEAR TREASURY YIELD AVERAGE  
2.6%
- ESTATE TAX BRACKET  
40%

# Gift Option #1

## PART 1: MAJOR CASH GIFT OF \$5 MILLION

### Gift calculations on up-front cash:

\$5,000,000	
<u>-2,170,000</u>	tax savings
\$2,830,000	net cost to donor
	<b>\$2,830,000</b>

## PART 2: ONE-LIFE CHARITABLE GIFT ANNUITY OF \$5 MILLION @ 7.2%

### Gift calculations on charitable gift annuity:

\$5,000,000	CGA
<u>- 1,040,381</u>	income tax savings
\$3,958,619	
	<b>\$3,958,619</b>

## PART 3: NET ADJUSTED INCOME FROM CHARITABLE GIFT ANNUITY (\$360,00)

\$285,480	tax-free annual income
<u>+ 42,178</u>	after-tax on taxable portion of gift annuity income (\$74,520)
\$327,658	total tax-free income from a CGA

## Income on \$5 million from a 10-year treasury @ 2.6%

\$130,000	taxable income
<u>- 56,420</u>	tax paid
\$ 73,580	after-tax income

**Increased after-tax income by purchasing a CGA versus holding a 10-year treasury:**

\$ 327,688	charitable gift annuity	
- 73,580	after-tax income	
\$ 254,100	increased after-tax income per year through a CGA	
x 8.3	actuarial life	
\$2,109,096	increased income through a CGA	<b>\$2,109,096</b>

**GIFT RECAP**

\$2,830,000	net cost of \$5 million up-front payment	
+3,958,619	net cost of charitable gift annuity	
\$6,788,619	net after-tax cost of the gift	
- 2,109,096	net increase in after-tax income through CGA	
\$4,679,523	net adjusted cost of the gift	<b>\$4,679,523</b>

# Gift Option #2

## PART 1: MAJOR CASH GIFT OF \$5 MILLION

Gift calculations on up-front cash:

\$5,000,000	
<u>-2,170,000</u>	tax savings
\$2,830,000	net cost to donor
	<b>\$2,830,000</b>

## PART 2: TWO-LIFE CHARITABLE GIFT ANNUITY OF \$5 MILLION @ 4.9% (\$245,000)

Gift calculations on charitable gift annuity:

\$5,000,000	CGA
<u>- 760,082</u>	income tax savings
\$4,239,918	
	<b>\$4,239,918</b>

## PART 3: NET ADJUSTED INCOME FROM CHARITABLE GIFT ANNUITY (\$360,00)

\$179,095	tax-free annual income
<u>+ 37,302</u>	after-tax on taxable portion of gift annuity income (\$65,905)
\$216,397	total tax-free income from a CGA

Income on \$5 million from a 10-year treasury @ 2.6%

\$130,000	taxable income
<u>- 56,420</u>	tax paid
\$ 73,580	after-tax income



**Increased after-tax income by purchasing a CGA versus holding a 10-year treasury @ 2.6%:**

\$ 216,397	charitable gift annuity	
- 73,580	after-tax income	
\$ 142,817	increased after-tax income per year through a CGA	
x 17.2	actuarial life	
\$2,456,452	increased income through a CGA	<b>\$2,456,452</b>

**GIFT RECAP**

\$2,830,000	net cost of \$5 million up-front payment	
+4,239,918	net cost of charitable gift annuity	
\$7,069,918	net after-tax cost of the gift	
- 2,456,452	net increase in after-tax income through CGA	
\$4,613,466	net adjusted cost of the gift	<b>\$4,613,466</b>

# Gift Option #3

## PART 1: MAJOR CASH GIFT OF \$5 MILLION

Gift calculations on up-front cash:

\$5,000,000	
<u>-2,170,000</u>	tax savings
\$2,830,000	net cost to donor
	<b>\$2,830,000</b>

## PART 2: NET COST BEQUEST OF \$2.5 MILLION

(assuming 40% estate tax bracket) **\$1,500,000**

## PART 3: ONE-LIFE CHARITABLE GIFT ANNUITY OF \$2.5 MILLION @ 7.2%

Gift calculations on charitable gift annuity:

\$2,500,000	CGA
<u>- 520,691</u>	income tax savings
\$1,979,309	
	<b>\$1,979,309</b>

## Increased after-tax income by purchasing a CGA versus holding a 10-year treasury @ 2.6%

\$142,740	tax-free annual income
<u>- 21,089</u>	after-tax on taxable portion of gift annuity income (\$37,260)
\$163,829	total tax-free income from a CGA

### Income from taxable 10-year treasury:

\$ 65,000	taxable income	
- 28,210	tax paid	
\$ 36,790	after-tax income	
\$ 163,829	total tax-free income from a CGA	
- 36,790	after-tax income	
\$ 127,039	net increase in tax-free income per year	
x 8.3	actuarial life	
\$1,054,423	increased tax-free income by CGA vs. Treasury	<b>\$1,054,423</b>

### GIFT RECAP

\$2,830,000	net cost to donor on cash gift	
+1,500,000	estate tax savings	
+1,979,309	net cost to donor on CGA	
\$6,309,309	net after-tax cost of \$10 million gift	<b>\$6,309,309</b>
\$6,309,309	net after-tax cost of \$10 million gift	
- 1,054,423	increase in income	
\$5,254,886	net adjusted cost of gift	<b>\$5,254,886</b>

## Recap of above three options for Mr. & Mrs. Doe

- \$5M cash and a \$5M one life CGA at 7.9% \$4,679,722
- \$5M cash and a \$5M two life CGA at 4.4% \$4,613,461
- \$5M cash , \$2.5M one life CGA at 7.9% and a \$2.5M bequest \$5,254,886

## Case #2—Upfront gift; gift while we wait; and gift at the end

- \$1,000,000 upfront payment
- \$1,000,000 bequest under will
- \$50,000 per year while charity waits for bequest