



Fundamentals of Planned Giving

Part Four: Advanced Planned Giving Methods

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Date: July 28, 2026

Time: 1:00 – 2:30 Eastern

Agenda

- Life income gifts
 - Charitable gift annuity
 - Charitable remainder trust
- Charitable lead trust
- Retained life estate

Life Income Gifts

Donor makes contribution now and receives income in return

- Amount of income can be fixed or variable
- Income can continue for one or more lifetimes, a term of years, or a combination of the two
- Income beneficiary can be donor or others
- Tax on long-term capital gains tax delayed or avoided
- Made during lifetime or in Will
- **Life income gifts are irrevocable**

Life Income Gifts

- Charitable gift annuity
 - Contract that promises fixed payments for life provided in exchange for an irrevocable contribution now
- Charitable remainder trust
 - Separate legal entity accepts contribution, holds & manages assets, makes payments to beneficiaries, distributes remainder to charity
 - Annuity trust pays fixed dollar amount
 - Unitrust pays fixed percentage of trust value
- Pooled income fund

Charitable Deduction

- Split interest contribution
 - Right to receive payments
 - Right to hold remainder
- Donor retains right to payments, contributes right to receive remainder in the future
- Charitable deduction for calculated present value of the right to hold the remainder
- Older (or fewer) beneficiaries or lower payout yields larger deduction

Charitable Gift Annuity

- Donor makes an irrevocable contribution to charity
- Charity issues contract promising to pay fixed amount annually for life
- Amount of payment is determined at time of gift and cannot change
- Taxation of payments:
 - Ordinary income
 - Tax-free income
 - Capital gain income

Charitable Gift Annuity

Gift Annuity funded with:	Cash	Appreciated Property
Annuitant Age	72	72
Principal Donated	\$25,000	\$25,000
Cost Basis	\$25,000	\$5,000
Annuity Rate	6.6%	6.6%
Charitable Deduction (CMFR = 5.0%)	\$9,434	\$9,434
Annuity	\$1,650	\$1,650
Tax-free Income	\$1,074	\$215
Capital Gain Income	-0-	\$859
Ordinary Income	\$576	\$576

After 14.5 years the entire annuity becomes ordinary income.

Notes:

- Contribution of appreciated property:
 - If donor is the annuitant, a portion of each payment can be taxed as long-term capital gain over life expectancy
 - If donor is not the annuitant, a portion of the gain is taxable to donor in year the gift is made
- Deferred payment gift annuity
 - First annuity payment some years in future
 - Payout and deduction will be larger

Deferred Gift Annuity

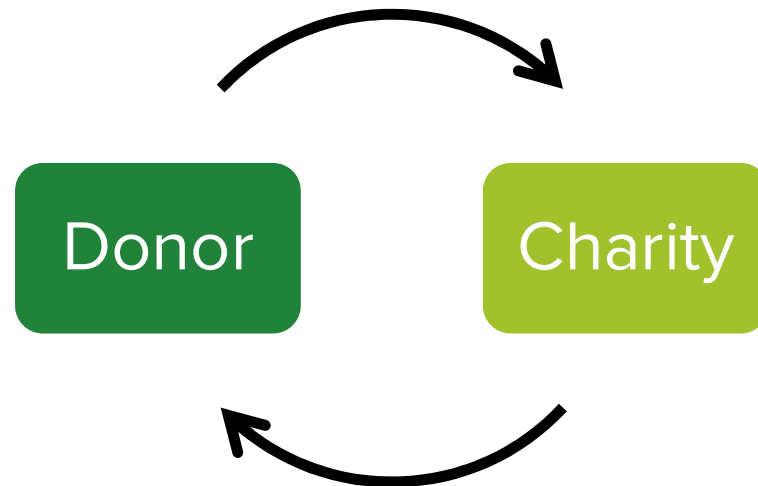
Deferred Payment Charitable Gift Annuity Funded With Cash

Annuitant Age at Date of Gift	50
Age at Date of First Payment	65
Principal Donated	\$25,000
Cost Basis	\$25,000
Annuity Rate	10.9%
Charitable Deduction (CMFR = 5.0%)	\$11,454
Annuity	\$2,725
Tax-free Portion	\$681
Ordinary Income	\$2,044

After 19.9 years, the entire annuity becomes ordinary income.

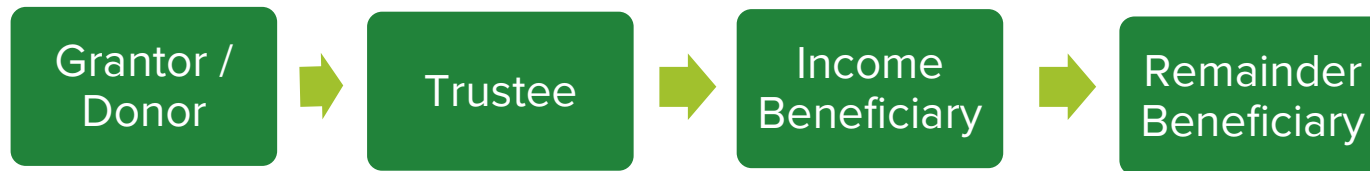
Charitable Gift Annuity: An Exchange

Donor gives money or property to charity



Charity promises to make annual payments to annuitant

Charitable Remainder Trust Relationships



Requirements to qualify as CRT

- Remainder irrevocably directed charity
- Not perpetual: lifetimes, term of years, or combination of the two
- Income beneficiaries must be living at time trust is created
- Must make payments to beneficiaries at least annually
- Must be either “annuity trust” or “unitrust”

Charitable Remainder Unitrust Types

- **Standard (SCRUT, Type I)** – principal can be distributed if needed to make payment
- **Net income (NICRUT, Type II)** – beneficiary receives unitrust % or net income (dividends & interest), whichever is less
- **Make-up (NIMCRUT, Type III)** – Type II, but can make up past deficiencies with excesses in future years
- **Flip Trust** – begins as Type II or III, but can become Type I in the future after a triggering event (e.g., sale of real estate, occurrence of specific date)

Negotiating CRT Payout

- Fixed at the time trust is created
- 5% minimum
- At least 10% deduction value to qualify
- Higher payout reduces the charitable deduction
- Lower payout can afford growth
- Selecting a payout higher than expected investment return can reduce payout amount over time

Effects of High Payout Rate

Charitable Deduction for \$500,000 Contribution to a Unitrust

Payout Rate:	5%	6%	7%	8%	9%	10%
One Life 72	\$265,620	\$236,870	\$212,075	\$190,630	\$172,030	\$155,840
Two Lives 72	\$211,540	\$179,290	\$152,325	\$129,740	\$110,795	\$94,870
IRS Discount Rate is 5.0%						

Additional consequences when CRT payout rate is higher than expected annual net total investment return:

- SCRUTs and CRATs are forced to distribute principle which reduces remainder available for charity
- Future SCRUT payout will decline as principle value decreases
- In pursuit of higher return, trustee may accept greater investment risk increasing variability in year-to-year performance

Four tier payout rule:

1. **Ordinary income:** net income including dividends and interest collected by the trust
2. **Capital gain income:** gains realized from sales by the trust
3. **Tax-exempt:** municipal bonds and other tax-exempt income collected by the trust
4. **Return of principal:** tax free to the beneficiary

Charitable Remainder Unitrust Example

5% Charitable Remainder Unitrust	
Beneficiary Age	72
Amount Donated	\$500,000
Payout Rate	5%
Charitable Deduction (CMFR = 5.0%)	\$265,620
Estimated Income First Full Year	\$25,000
(Future income will vary with trust value.)	

Life Income Projection

Lifetime Income Projections for 5% Unitrust

Projection runs for 18 years, life expectancy of a 72-year-old

Original Principal is \$500,000 with \$100,000 cost basis

Marginal income tax rate is 24%; capital gains rate is 15%

Total investment return = 6% (2% income + 4% appreciation)

Charitable Deduction (CMFR = 5.0%)	\$265,620
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Income Tax Savings	\$63,749
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After-tax Cost of Gift	\$436,251
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Total After-tax Income to Beneficiary	\$399,160
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Projected Remainder for Charity	\$598,074
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CRUT versus Sell & Reinvest

Lifetime Income Projections for 5% Unitrust vs. Sell & Reinvest

Projection runs for 18 years, life expectancy of a 72-year-old

Original Principal is \$500,000 with \$100,000 cost basis

Marginal income tax rate is 24%; capital gains rate is 15%

Total investment return = 6% (2% income + 4% appreciation)

	5% CRUT	Sell & Reinvest
Gross Principal	\$500,000	\$500,000
Capital Gains Tax Paid	\$0	\$60,000
Net Principal to Invest	\$500,000	\$440,000
Tax Savings from Charitable Deduction	\$63,749	\$0
Total Before-tax Income to Beneficiary	\$490,369	\$431,524
Remainder to Charity or Heirs	\$598,074	\$526,305

QCD for Life Income Gift

QCD in exchange for life income gift subject to limitations:

- Once in a lifetime only (during one tax year)
- Aggregate total not more than \$55,000 (in 2026)
- Charitable remainder trust or gift annuity paying at least 5%
- QCD is only funding asset; donor must be age 70½ or older
- Beneficiary can be donor and/or spouse only
- Entire beneficiary payment is ordinary income
- No charitable deduction (but no tax on QCD either)

Charitable Lead Trust

- Pays income to charity for a term of years, then distributes remainder to individuals; either annuity trust or unitrust type
- “Non-grantor” type generates gift tax deduction, which produces gift tax deduction reducing gift tax on future transfer of the remainder to others
- Example: \$10 million asset contributed to Charitable Lead Annuity Trust paying \$802,500 to charity each year for 20 years then distributing remainder to heirs
- Results after 20 years:
 - \$16 million given to charity over 20 years
 - Assets transfer to heirs 20 years hence is tax-free due to gift tax deduction, potentially saving of \$4 million

Retained Life Estate

- Donor irrevocably contributes home or farm now but retains lifetime right to live in and use it
- Income tax deduction now for calculated value of charity's right to the property after life tenancy ends
- Donor continues to pay expenses for taxes, maintenance, et cetera

Retained Life Estate in a Personal Residence or Farm

Life Tennant age	72
Value of Property	\$500,000
Value of Buildings	\$350,000
Useful Life of Buildings	40 years
Salvage Value of Buildings	\$90,000
Charitable Deduction (CMFR = 5.0%)	\$228,350



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Still Have a Question?

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