



Alternative Endings: Early Terminations of Split Interest Gifts

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Introduction

Split Interest Gifts

- Charitable Gift Annuities
- Deferred Charitable Gift Annuities
- Charitable Remainder Annuity Trusts
- Charitable Remainder Unitrusts
- Retained Life Estates

Q & A

Split Interest Gifts

- A split interest gift provides a substantial benefit both to the charitable organization and to one or more persons.
- Examples of split interest gifts include:
 - Charitable Gift Annuities
 - Deferred Charitable Gift Annuities
 - Charitable Remainder Annuity Trusts
 - Charitable Remainder Unitrusts
 - Retained Life Estates

Split Interest Gifts

- Why would a donor use a split interest gift?
 - To make a substantial gift to charity
 - To earn a significant tax deduction
 - To receive income for life
 - To reserve a life estate
- Why would a donor relinquish a split interest gift?
 - To accelerate the remainder gift to charity
 - To earn an additional tax deduction
 - To receive a cash payout

Charitable Gift Annuity

- A charitable gift annuity is a contract between the charity and the donor. The charity has to make payments even if the funds from the gift become depleted.
- The calculations for a charitable gift annuity are determined by:
 - Date of gift
 - IRS discount rate
 - Annuitants' date of birth
 - Mortality table
 - Amount of gift
 - Source of gift

Summary of Benefits

5.4% Charitable Gift Annuity

ASSUMPTIONS:

Annuitant Age	[11/1/1945] 72
Date of Gift	11/1/2017
Cash Donated	\$25,000.00
Payout Rate from ACGA2012 Table	5.4%
Payment Schedule	quarterly at end

BENEFITS:

Charitable Deduction	\$10,598.75
Annuity	\$1,350.00
Tax-free Portion	\$993.60
Ordinary Income	\$356.40

After 14.5 years, the entire annuity becomes ordinary income.

Charitable Gift Annuity

Actuarial Calculations

5.4% Charitable Gift Annuity

ASSUMPTIONS:

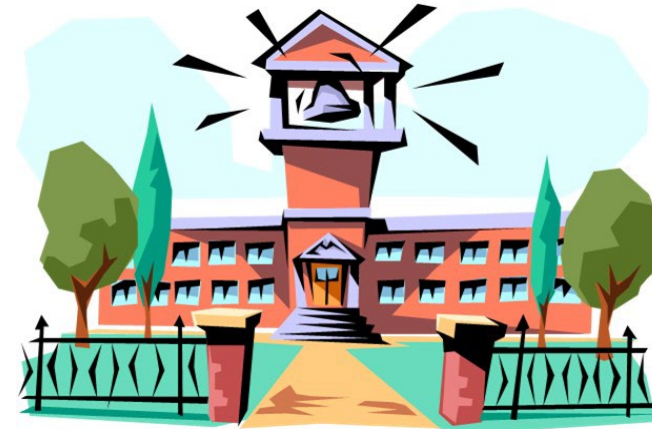
[1]	Annuitant Date of Gift	[11/1/1945] 72 11/1/2017
[2]	Cash Donated	\$25,000.00
[3]	Payout Rate from ACGA2012 Table	5.4%
[4]	Payment Schedule	quarterly at end
[5]	Discount Rate under IRC Section 7520(a) for 11/2017	2.4%

CALCULATIONS:

[6]	Annuity ([2] x [3])	\$1,350.00
[7]	[a] Value of \$1 for age on [1], rate on [5] (Table S - IRS Publication 1457 (5-2009))	10.5724
	[b] Adjustment for schedule on [4], rate on [5] (Table K - IRS Publication 1457 (5-2009))	1.0090
	[c] Adj. Value of \$1 ([7a] x [7b])	10.6676
[8]	Investment in Contract ([6] x [7c])	\$14,401.25
[9]	CHARITABLE DEDUCTION ([2] - [8])	\$10,598.75

Charitable Gift Annuity - Termination

- How would a donor relinquish his or her remaining life interest in the gift annuity?
- The calculation of the deduction for a termination is usually a computation of any remaining “tax free” income.
- There is no charitable tax deduction if the donor outlives the life expectancy and “lived too long.”
- Terminations:
 - Gift at death
 - Gift to charity
 - Cash out



Charitable Gift Annuity - Termination

5.4% Charitable Gift Annuity - Gift of Annuity Interest

ASSUMPTIONS:

[1]	[a]	Annuitant Birth Date	11/1/1945
	[b]	Age at Date of Original Gift	[11/1/2017] 72
	[c]	Age at Date of Termination	[11/20/2025] 80
[2]		Cash Donated	\$25,000.00
[3]		Payout Rate from ACGA2012 Table	5.4%
[4]		Payment Schedule	Quarterly at end
[5]		Discount Rate for [1b] under IRC Section 7520(a) for	2.4%
[6]		Discount Rate for [1c] under IRC Section 7520(a) for	4.6%

BREAKDOWN OF ANNUITY:

	Tax-free Portion	Ordinary Income	Total Annuity
2017 to 2017	164.70	59.08	223.78
2018 to 2031	993.60	356.40	1,350.00
2032 to 2032	326.15	1,023.85	1,350.00
2033 onward	0.00	1,350.00	1,350.00
2025 (termination year)	745.20	267.30	1,012.50

Charitable Gift Annuity - Termination

CALCULATIONS:

[7]	Annuity ([2] x [3])	\$1,350.00
[8]	[a] Value of \$1 for age on [1c], rate on [6] (Table S - IRS Publication 1457 (5-2009))	6.8337
	[b] Adjustment for schedule on [4], rate on [6] (Table K - IRS Publication 1457 (5-2009))	1.0171
	[c] Adj. Value of \$1 ([8a] x [8b])	6.9506
[9]	Value of Annuity Interest ([7] x [8c])	\$9,383.25
[10]	Undistributed Tax-free Portion / Adjusted Cost Basis ((6 years x 993.60) + (993.60 - 745.20) + 326.15))	\$6,536.15
[11]	Charitable Deduction for Gift of Annuity Interest (lesser of [9] or [10], see IRC 170(e)(1)(A))	\$6,536.15

Charitable Gift Annuity - Termination

Assigning an Annuity Interest to the Charity

[Addressed to appropriate office of charity that issued the gift annuity.]

[Date]

[Name of contact person at charity]

[Name of charity]

[P.O. Box or Street Address]

[City/state/ZIP Code]

Dear _____:

For the purpose of making a charitable gift, the undersigned irrevocably assigns and transfers to *[name of charity]* (hereinafter “the Charity”) *[all or an undivided _____ percent]* of the undersigned’s interest in the Charity’s Gift Annuity No.*[number]*, the terms of which are set forth in the Gift Annuity Agreement made *[date]* between *[name of donor]* and the Charity, and hereby confirms that the Charity shall hereafter have no further payment obligation with respect to what has been assigned.

Sincerely,

[Name of annuitant]

Date

Deferred Charitable Gift Annuity

- A deferred charitable gift annuity is a charitable gift annuity contract between the charity and the donor.
- The donor elects to defer the first annuity payment to a later date no less than one year after the date of gift.
- Each year of payments deferred results in a higher payout rate to the annuitant.
- There is no limit on the number of years that payments can be deferred, but the starting payment date must be established at the outset; it cannot be changed at a later point in time.

Deferred Charitable Gift Annuity

Summary of Benefits

7.3% Deferred Gift Annuity

ASSUMPTIONS:

Annuitant Age	[11/1/1945] 72
Date of Gift	11/1/2017
Date of First Payment	3/31/2023
Age at Annuity Starting Date	[1/1/2023] 77
Cash Donated	\$25,000.00
Payout Rate from ACGA2012 Table	7.3%
Payment Schedule	quarterly

BENEFITS:

Charitable Deduction	\$13,458.75
Annuity	\$1,825.00
Tax-free Portion	\$1,040.25
Ordinary Income	\$784.75

After 11.1 years from the year payments begin, the entire annuity becomes ordinary income.

Deferred Charitable Gift Annuity

Actuarial Calculations

7.3% Deferred Gift Annuity

ASSUMPTIONS:

[1]	[a] <u>Annuitant</u>	[11/1/1945]
	Date of Gift	72 11/1/2017
	[b] <u>Age at Annuity Starting Date</u>	[1/1/2023] 77
	[c] <u>Age at Date of First Payment</u>	[3/31/2023] 77
[2]	Cash Donated	\$25,000.00
[3]	Payout Rate from ACGA2012 Table	7.3%
[4]	Payment Schedule	quarterly
[5]	Discount Rate under IRC Section 7520(a) for 11/2017	2.4%

CALCULATIONS:

[6]	Annuity ([2] x [3])	\$1,825.00
[7]	[a] Value of \$1 for age on [1b], rate on [5] (Table S - IRS Publication 1457 (5-2009))	8.4349
	[b] Adjustment for schedule on [4], rate on [5] (Table K - IRS Publication 1457 (5-2009))	1.0090
	[c] Adj. Value of \$1 ([7a] x [7b])	8.5108
	[d] Deferred Discount Factor for [1] and [5]	0.743051
	[e] Value of \$1 Deferred ([7c] x [7d])	6.3240
[8]	Investment in Contract ([6] x [7e])	\$11,541.25
[9]	CHARITABLE DEDUCTION ([2] - [8])	\$13,458.75

Deferred Charitable Gift Annuity - Termination

- How would a donor relinquish his or her remaining life interest in the gift annuity?
- If a DCGA is relinquished prior to any payments being issued, the deduction is the original funding amount minus the original charitable deduction amount (a/k/a the “Investment in Contract”).
- Terminations:
 - Gift at death
 - Gift to charity
 - Cash out

Deferred Charitable Gift Annuity - Termination

Termination of Gift Annuity

7.3% Deferred Gift Annuity - Gift of Annuity Interest

ASSUMPTIONS:

[1]	[a]	Annuitant Birth Date	11/1/1945
	[b]	Age at Date of Original Gift	[11/1/2017] 72
	[c]	Age at Date of Termination	[11/18/2025] 80
	[d]	Age at Annuity Starting Date	[1/1/2023] 77
	[e]	Age at Date of First Payment	[3/31/2023] 77
[2]		Cash Donated	\$25,000.00
[3]		Payout Rate from ACGA2012 Table	7.3%
[4]		Payment Schedule	quarterly
[5]		Discount Rate for [1b] under IRC Section 7520(a) for 11/2017	2.4%
[6]		Discount Rate for [1c] under IRC Section 7520(a) for 11/2025	4.6%

BREAKDOWN OF ANNUITY:

	Tax-free Portion	Ordinary Income	Total Annuity
	1,040.25	784.75	1,825.00
2023 to 2033	98.50	1,726.50	1,825.00
2034 to 2034	0.00	1,825.00	1,825.00
2035 onward			
	780.19	588.56	1,368.75
2025 (termination year)			

Deferred Charitable Gift Annuity - Termination

CALCULATIONS:

[7]	Annuity ([2] x [3])	\$1,825.00
[8]	[a] Value of \$1 for age on [1c], rate on [6] (Table S - IRS Publication 1457 (5-2009))	6.8337
	[b] Adjustment for schedule on [4], rate on [6] (Table K - IRS Publication 1457 (5-2009))	1.0171
	[c] Adj. Value of \$1 ([8a] x [8b])	6.9505
[9]	Value of Annuity Interest ([7] x [8c])	\$12,684.75
[10]	Undistributed Tax-free Portion / Adjusted Cost <u>Basis</u> <u>((8 years x 1,040.25) + (1,040.25 - 780.19) + 98.50)</u>	\$8,680.56

Charitable Remainder Trusts

- A charitable remainder trust (CRT) is an irrevocable trust which provides payments to the beneficiaries for their lifetimes, or for a term of up to 20 years, and then the remainder goes to charity.
- The donor must work with an attorney to create the trust.
- The CRT requires a Trustee, who is legally responsible for carrying out the provisions of the trust.
- CRTs are typically funded with larger amounts than CGAs.
 - Charitable remainder annuity trust (CRAT)
 - Charitable remainder unitrust (CRUT)

Charitable Remainder Annuity Trust

- A charitable remainder annuity trust (CRAT) is an irrevocable trust which provides payments to the beneficiaries for their lifetimes, or for a term of up to 20 years, and then the remainder goes to charity.
- The CRAT pays a fixed amount each year which is no less than 5% and no more than 50% of the value of the original gift.
- There is some risk of the CRAT becoming exhausted (fully depleted) due to the fixed payment amount never changing.

The key word is “Actuarial”



"In a way, I am kind of famous. But you've probably never heard of me unless you happen to travel in actuarial circles."

Charitable Remainder Annuity Trust

Actuarial Calculations

5.0% Charitable Remainder Annuity Trust

ASSUMPTIONS:

[1]	Beneficiary Age	[11/1/1945] 72
	Date of Gift	11/1/2017
[2]	Cash Donated	\$250,000.00
[3]	Payout Rate	5.0%
[4]	Payment Schedule	Quarterly at end
[5]	Discount Rate under IRC Section 7520(a) for 11/2017	2.4%

CALCULATIONS:

[6]	Value of \$1 for measuring lives/term on [1], years on [11] (Reg. 25.7520-3(b)(2)(v) Example 5)	10.5395
[a]	Adjustment factor for schedule on [4], rate on [5] (Table K - IRS Publication 1457 (5-2009))	1.0090
[b]	Adjusted value of \$1 ([6] x [6a]) (Reg. 20.2031-7(d)(2)(iv))	10.6344
[7]	Remainder factor (1.0 - ([6b] x [3]))	0.46828
[8]	Annual Payment ([2] x [3])	\$12,500.00
[9]	Value of Life Interest ([6b] x [8])	\$132,930.00
[10]	CHARITABLE DEDUCTION ([2] - [9])	\$117,070.00

Charitable Remainder Annuity Trust - Termination

- How would a donor relinquish his or her remaining life interest in the charitable remainder annuity trust?
 - The process is more complicated because it involves a trust.
 - Donor needs to work with an attorney to draft and execute the official relinquishment of the remaining life income interest.
- Terminations:
 - Gift at death
 - Gift to charity
 - Cash out

Charitable Remainder Annuity Trust - Termination

Non-Charitable Interest Actuarials

5.0% Charitable Remainder Annuity Trust

ASSUMPTIONS:

[1]	Beneficiary Age	[11/1/1945] 80
	Date of Valuation	11/18/2025
[2]	Principal Value	\$250,000.00
[3]	Payout Rate	5.0%
[4]	Payment Schedule	quarterly at end
[5]	Discount Rate under IRC Section 7520(a) for 9/2025	4.8%

CALCULATIONS:

[6]	Value of \$1 for measuring lives/term on [1], years on [9] (Reg. 25.7520-3(b)(2)(v) Example 5)	6.7581
[a]	Adjustment factor for schedule on [4], rate on [5] (Table K - IRS Publication 1457 (2010CM))	1.0178
[b]	Adjusted value of \$1 ([6] x [6a]) (Reg. 20.2031-7(d)(2)(iv))	6.8784
[7]	Annual Payment ([2] x [3])	\$12,500.00
[8]	Value of Life Interest ([6b] x [7])	\$85,980.00
[9]	Number of Years to Corpus Exhaustion	61.18510

Charitable Remainder Unitrust

- A charitable remainder unitrust (CRUT) is an irrevocable trust which provides annuity payments to the beneficiaries for their lifetimes or for a term of up to 20 years, and then the remainder goes to charity.
- The CRUT pays no less than 5% and nor more than 50% of the value of the trusts assets as determined each year.
- The CRUT may also be structured to pay the lesser of the annual net income or the annual percentage of trust assets.
- In recent years, the Flip Charitable Remainder Unitrust (FLIP-CRUT) has become increasingly popular, allowing the trust to start as a net income CRUT and then convert to a standard CRUT.

Charitable Remainder Unitrust

Actuarial Calculations

5.0% Charitable Remainder Unitrust

ASSUMPTIONS:

[1]	<u>Beneficiary</u> Age	[11/1/1945] 72
	Date of Gift	11/1/2017
[2]	Cash Donated	\$250,000.00
[3]	Payout Rate	5.0%
[4]	Payment Schedule	quarterly 3 months to 1st payment
[5]	Discount Rate under IRC Section 7520(a) for 11/2017	2.4%

CALCULATIONS:

[6]	Adjustment factor for schedule on [4], rate on [5] (Table F - IRS Publication 1458 (5-2009))	0.985308
[7]	Adjusted unitrust payout rate ([3] x [6]) (Reg. 1.664-4(e)(3))	4.9265%
[8]	Remainder factor for values on [1] and [7] (Table <u>U</u> (1) - IRS Publication 1458 (5-2009))	0.55471
[9]	CHARITABLE DEDUCTION ([2] x [8])	\$138,677.50

Charitable Remainder Unitrust - Termination

- How would a donor relinquish his or her remaining life interest in the charitable remainder unitrust?
 - The process is more complicated because it involves a trust.
 - Donor needs to work with an attorney to draft and execute the official relinquishment of the remaining life income interest.
- Terminations:
 - Gift at death
 - Gift to charity
 - Cash out

Charitable Remainder Unitrust - Termination

Non-Charitable Interest Actuarials

5.0% Charitable Remainder Unitrust

ASSUMPTIONS:

[1]	Beneficiary Age	[11/1/1945] 80
	Date of Valuation	11/18/2025
[2]	Principal Value	\$250,000.00
[3]	Payout Rate	5.0%
[4]	Payment Schedule	quarterly 3 months to 1st payment
[5]	Discount Rate under IRC Section 7520(a) for 9/2025	4.8%

CALCULATIONS:

[6]	Adjustment factor for schedule on [4], rate on [5] (Table F - IRS Publication 1458 (2010CM))	0.971206
[7]	Adjusted unitrust payout rate ([3] x [6]) (Reg. 1.664-4(e)(3))	4.8560%
[8]	Remainder factor for values on [1] and [7] (Table <u>U</u> (1) - IRS Publication 1458 (2010CM))	0.66079
[9]	Value of Remainder Interest ([2] x [8])	\$165,197.50
[10]	Value of Life Interest ([2] - [9])	\$84,802.50

Retained Life Estate

- A retained life estate is when an individual gives a home or farm to charity and retains the right to live in the property for the rest of his/her/their lives.



Retained Life Estate

Actuarial Calculations

Retained Life Estate

ASSUMPTIONS:

[1]	Life Tenant Age Date of Gift	[11/1/1945] 72 11/1/2017
[2]	Value of Property	\$500,000.00
[3]	Cost Basis of Property	\$100,000.00
[4]	Value of Building(s)	\$333,333.00
[5]	Estimated Useful Life of Building(s)	45 years
[6]	Salvage Value of Building(s)	\$83,333.00
[7]	Discount Rate under IRC Section 7520(a) for 10/2017	2.2%

CALCULATIONS:

[8]	Nondepreciable Factor for [1] and [7] (Reg. 1.170A-12(b)(1))	0.76364
[9]	Remainder Value of Net Nondepreciable Portion ([8] x ([2] - ([4] - [6])))	\$190,910.00
[10]	Depreciable Factor for [1], [5] & [7] (Reg. 1.170A-12(b)(2))	0.56284
[11]	Remainder Value of Net Depreciable Portion ([10] x ([4] - [6]))	\$140,710.00
[12]	CHARITABLE DEDUCTION ([9] + [11])	\$331,620.00

Retained Life Estate - Termination

- How would a donor relinquish his or her remaining life interest in the retained life estate?
 - The donor would need to work with an attorney to terminate the life estate agreement.
- Terminations:
 - Gift at death
 - Gift to charity
 - Cash out

Retained Life Estate - Termination

Non-Charitable Interest Actuarials

Retained Life Estate

ASSUMPTIONS:

[1]	Life Tenant Age Date of Valuation	[11/1/1945] 80 11/18/2025
[2]	Value of Property	\$500,000.00
[3]	Cost Basis of Property	\$100,000.00
[4]	Value of Building(s)	\$333,333.00
[5]	Estimated Useful Life of Building(s)	45 years
[6]	Salvage Value of Building(s)	\$83,333.00
[7]	Discount Rate under IRC Section 7520(a) for 11/2025	4.6%

CALCULATIONS:

[8]	Nondepreciable Factor for [1] and [7] (Reg. 1.170A-12(b)(1))	0.68565
[9]	Remainder Value of Net Nondepreciable Portion ([8] x ([2] - ([4] - [6])))	\$171,412.50
[10]	Depreciable Factor for [1], [5] & [7] (Reg. 1.170A-12(b)(2))	0.56741
[11]	Remainder Value of Net Depreciable Portion ([10] x ([4] - [6]))	\$141,852.50
[12]	Value of Remainder ([9] + [11])	\$313,265.00
[13]	Value of Life Estate ([2] - [12])	\$186,735.00

Cashing Out Remaining Life Interests

- In each of the cases we've discussed, there are options for cashing out the remaining life interest.
- The amount to be paid for cashing out a remaining life interest is NOT limited to the rules for calculating a charitable deduction – any cash settlement is a business transaction and is therefore negotiable.
- Receiving a cash payout may be partly or wholly taxable to the beneficiary as ordinary income.
- Better call PG Calc to discuss!



Questions?



Click the Q&A icon at the bottom of your screen.

Still Have a Question?

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