



**NeighborImpact**

Critical Needs. Diverse Services. Empowering Change.

## What is planned giving?

The term "planned giving" refers to charitable gifts that require some planning before they are made. Planned gifts are popular because they can provide valuable tax benefits and/or income for life.

Whether a donor uses cash or other assets, such as real estate, artwork, or partnership interests, the benefits of funding a planned gift can make this type of charitable giving very attractive to both the donor and charity.

### Potential benefits of planned gifts

- Increase current income for the donor or others
- Reduce the donor's income tax
- Avoid capital gains tax
- Pass assets to family at a reduced tax cost
- Make significant donations to charity

Planned gifts include bequests, trusts, and contracts between a donor and a charity. Basic descriptions of the most popular types of planned gifts follow.

### Types of planned gifts:

**Bequest** - When a donor decides to leave assets to charity in her will, she is making a bequest. The donor's estate will receive a charitable estate tax deduction at her death, when the gift is made to charity.

**Gift Annuity** - A gift annuity is a contract between a charity and a donor. In return for a donation of cash or other assets, the charity agrees to pay a fixed payment for life to the donor or to a friend or family member of the donor's choosing. The donor also can claim a charitable tax deduction. If a donor funds a gift annuity with long-term capital gain property, the donor will have to report only some of the gain, and may be able to report it in installments over many years. Income from a gift annuity can be deferred for a period of years. Deferred gift annuities are often set up

**Charitable Remainder Trust** - This trust makes payments, either a fixed amount (annuity trust) or a percentage of trust principal (unitrust), to whomever the donor chooses to receive income. The donor may claim a charitable income tax deduction and may not have to pay any capital gains tax if the gift is of appreciated property. At the end of the trust term, the charity receives whatever amount is left in the trust. Charitable remainder unitrusts provide some flexibility in the distribution of income, and thus can be helpful in retirement planning.

**Charitable Lead Trust** - This trust makes payments, either a fixed amount (annuity trust) or a percentage of trust principal (unitrust), to charity during its term. At the end of the trust term, the principal can either go back to the donor (a grantor lead trust) or to heirs named by the donor (a non-grantor lead trust). The donor may claim a charitable income tax deduction for funding a grantor lead trust or a charitable gift tax deduction for funding a non-grantor lead trust. Since lead trusts are typically used to pass assets to heirs, non-grantor lead trusts are far more common than grantor lead trusts.

**Retained Life Estate** - A donor may make a gift of his personal residence or farm to charity and retain the right to live there for the remainder of his or her life. The donor receives an immediate income tax deduction for the gift. At the donor's death, the charity can use or sell the property.

When considering a planned gift please seek advice from your financial advisor, lawyer, or development officer. If you need a list of advisors, please contact:

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