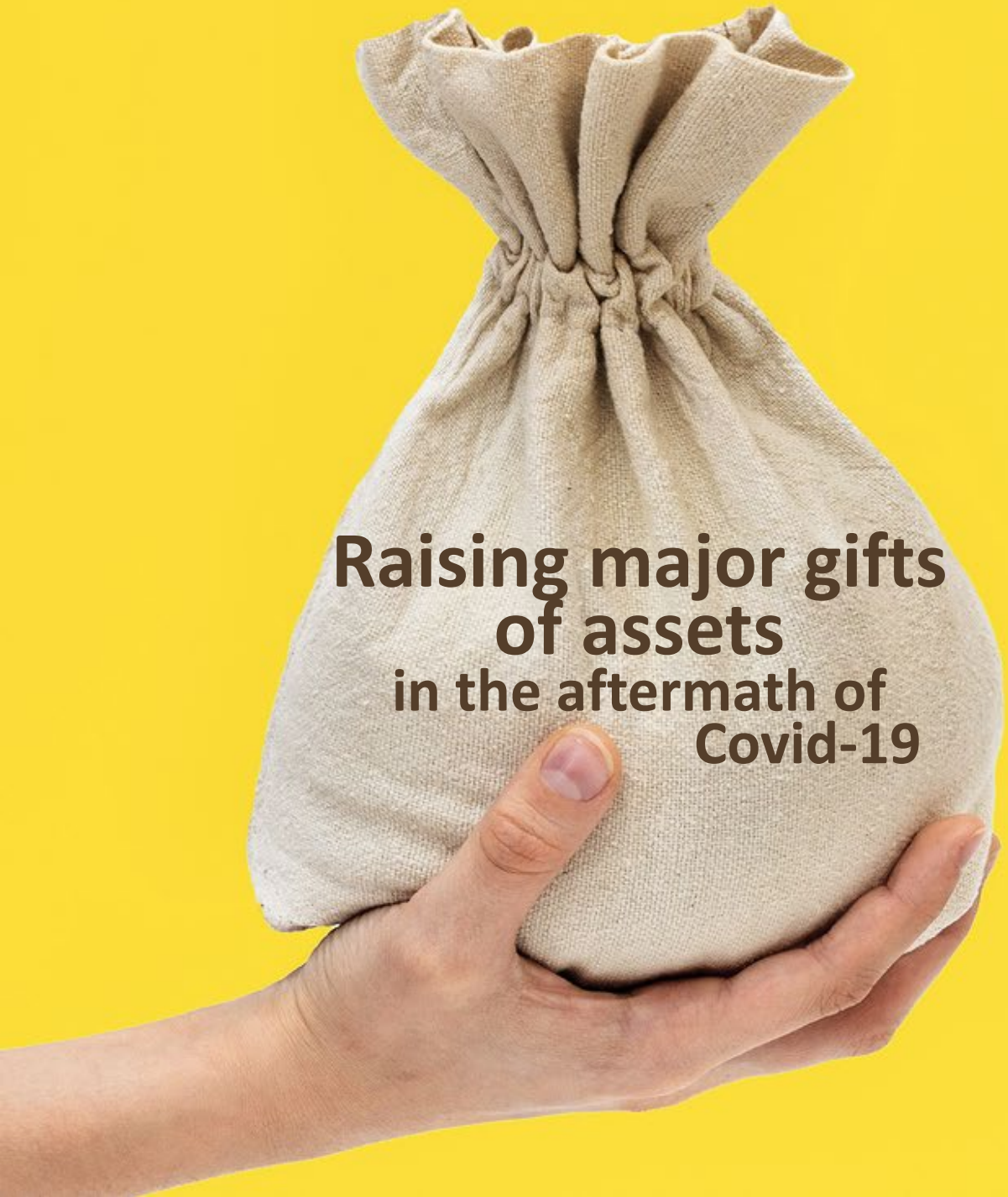


Raising major gifts of assets
in the aftermath of Covid-19

New strategies for a new world

Russell James, J.D., Ph.D., CFP®
Professor, Charitable Financial Planning
Texas Tech University

Major gifts of assets

Why? Why focus on major gifts of assets?

How? How can we raise these gifts now (simple version and complex version)

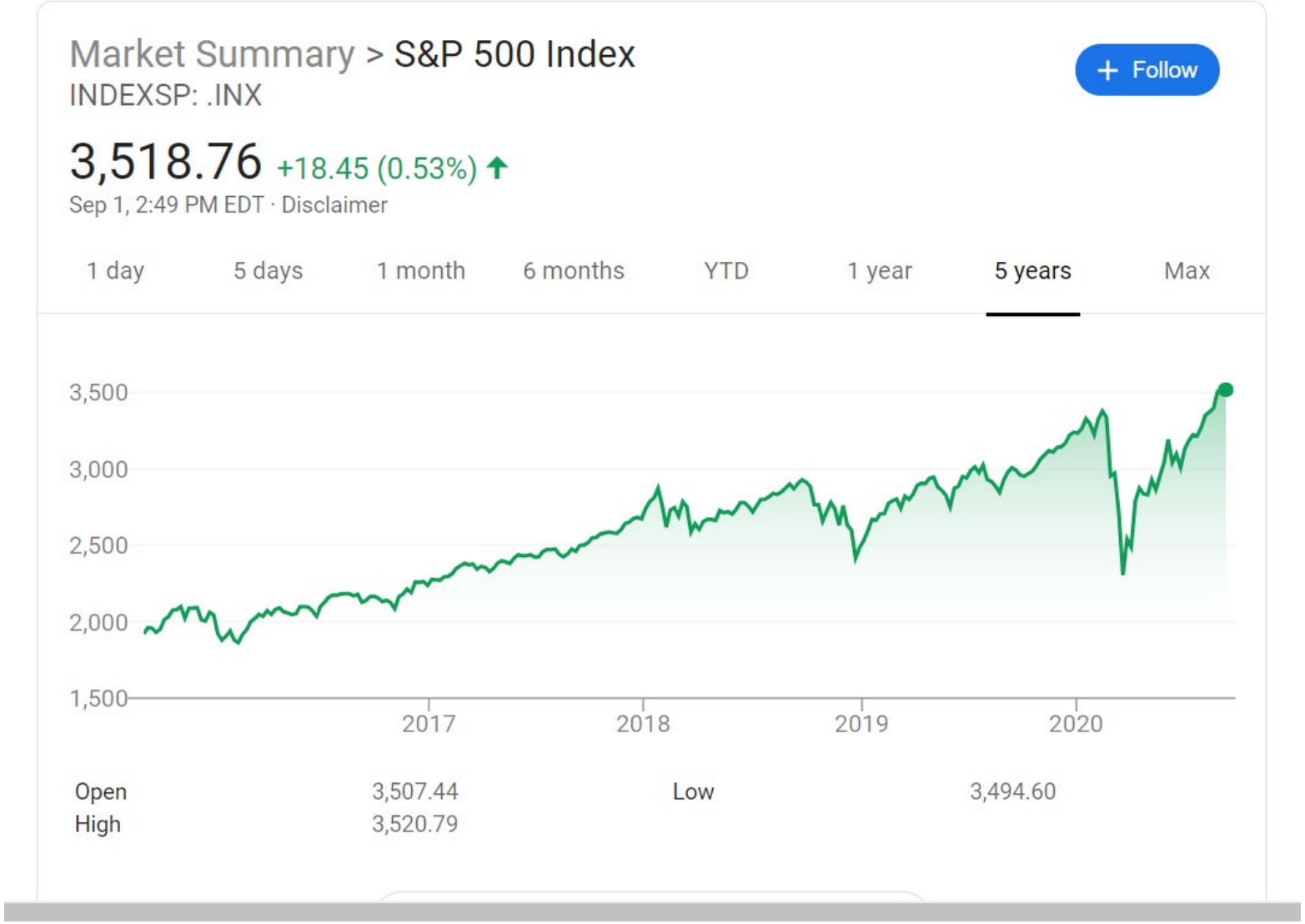
Why not just use the easy button?

Asking for cash is easier

- You don't need the hassle
- You don't need to help your donors; someone else will
- You don't need to put in the hard work to become a competent advisor, learn new things, and provide value to donors

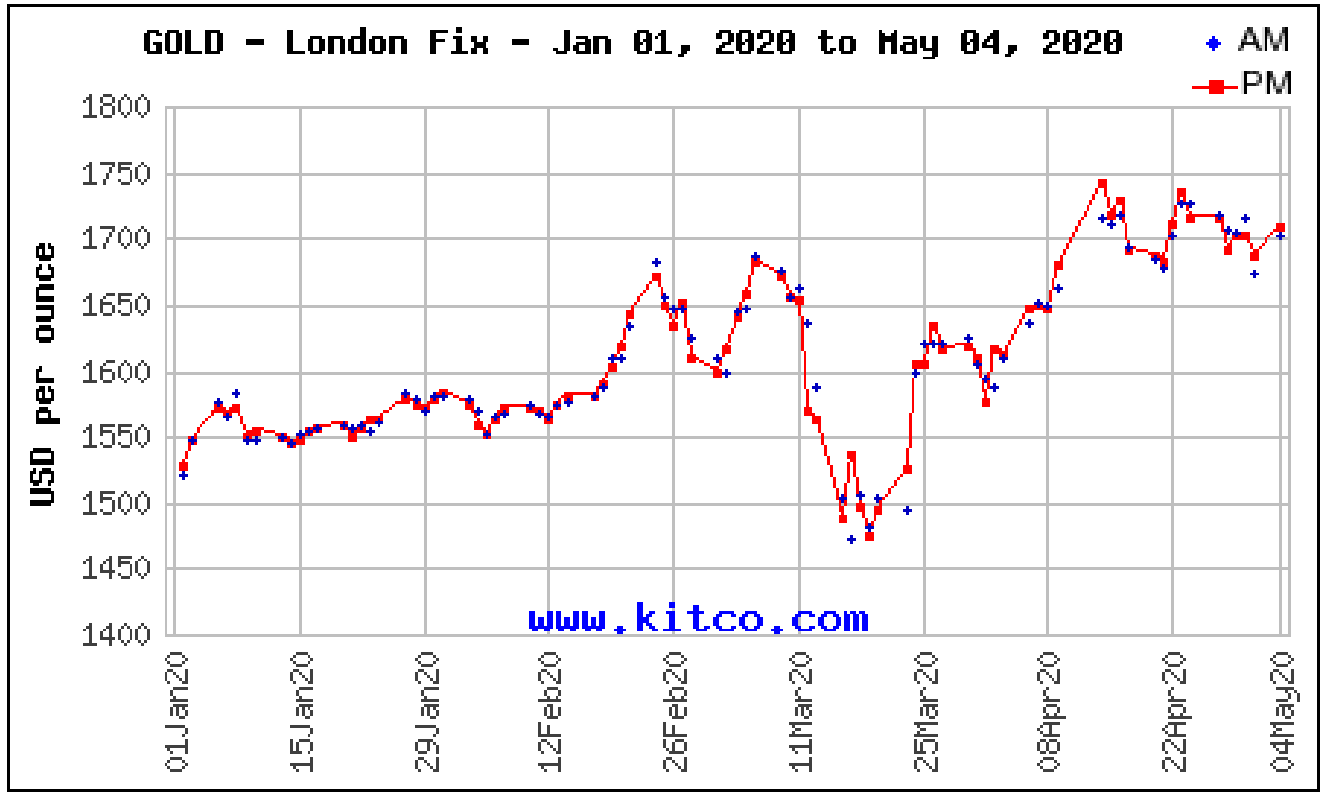
But asking for assets makes sense because…

1. Because a drop doesn’t mean it isn’t still worth more than you paid for it



2. Because not everything dropped

- Gold 1st quarter growth: 12.68%
- NCREIF Farmland property index 1st quarter growth +3.98%
- WalMart, Amazon, Pharmaceuticals, Clorox are also big winners so far



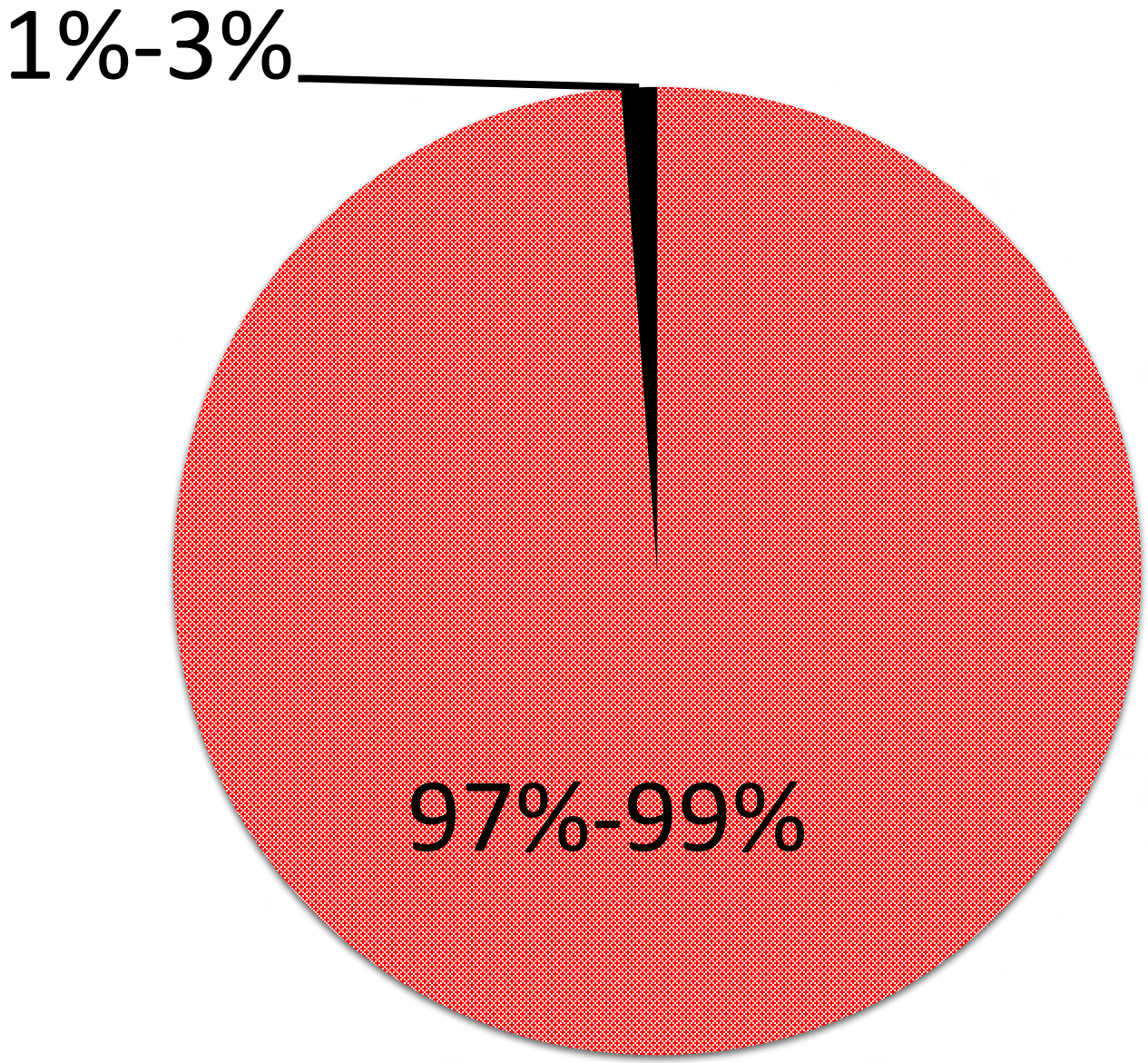
3. Because there are special one-time opportunities for 2020 in the U.S.

- Sept § 7520 interest rates are the lowest in history
- Can eliminate 100% of income with charitable deductions

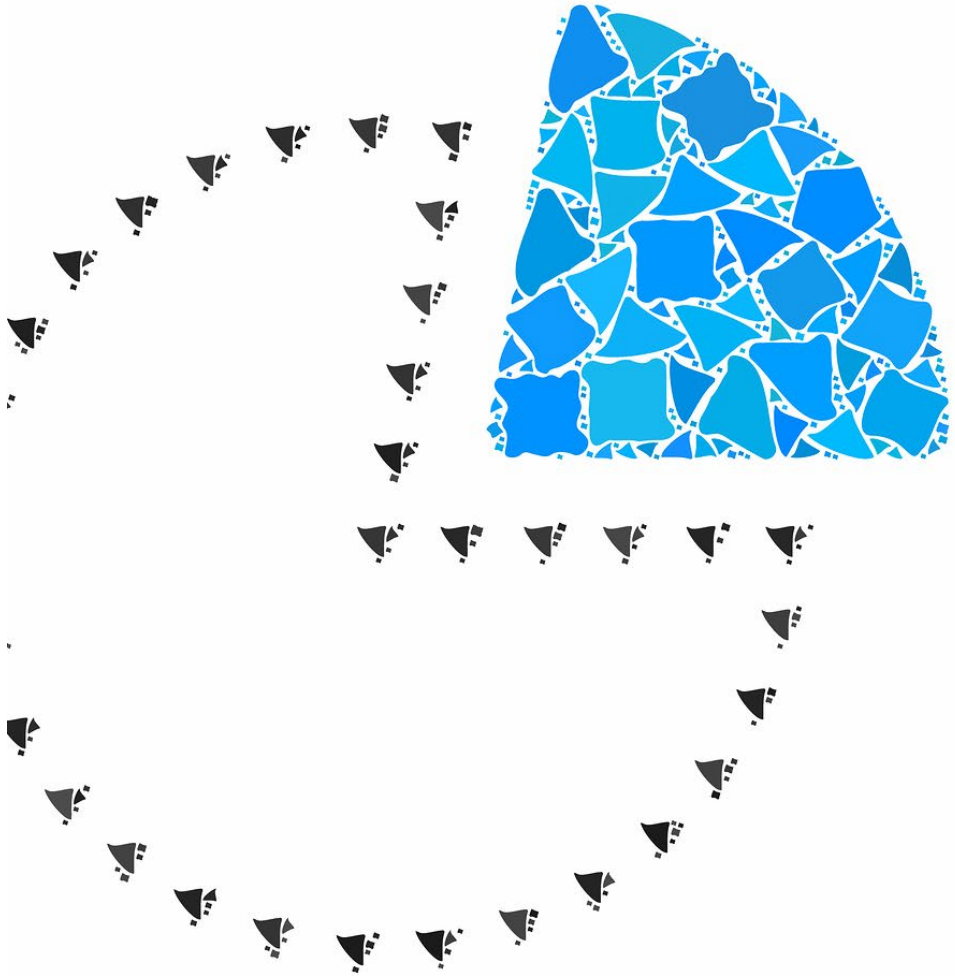
4. Because that’s where the wealth is

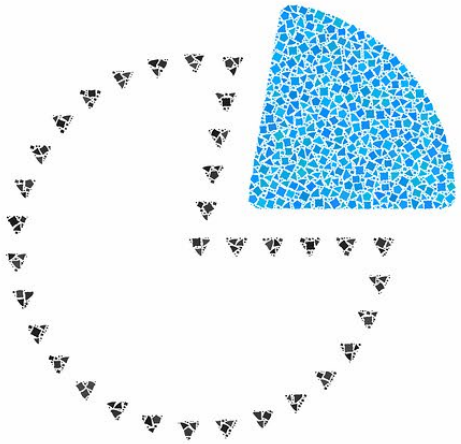
Financial assets held by families (U.S. Census 2017)

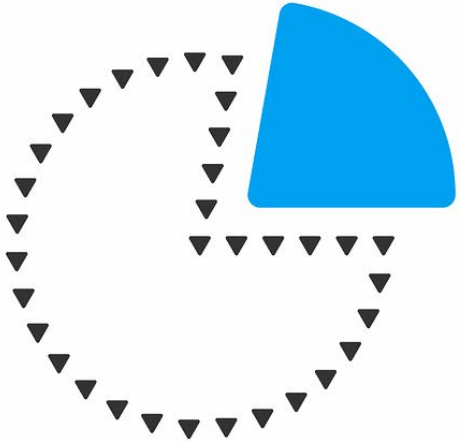
https://www2.census.gov/programs-surveys/demo/tables/wealth/2013/wealth-asset-ownership/wealth-tables-2013.xlsx



- Other financial assets (stocks, bonds, retirement accounts, life insurance, mutual funds)
- Cash: Checking, savings, money market deposit accounts, and similar







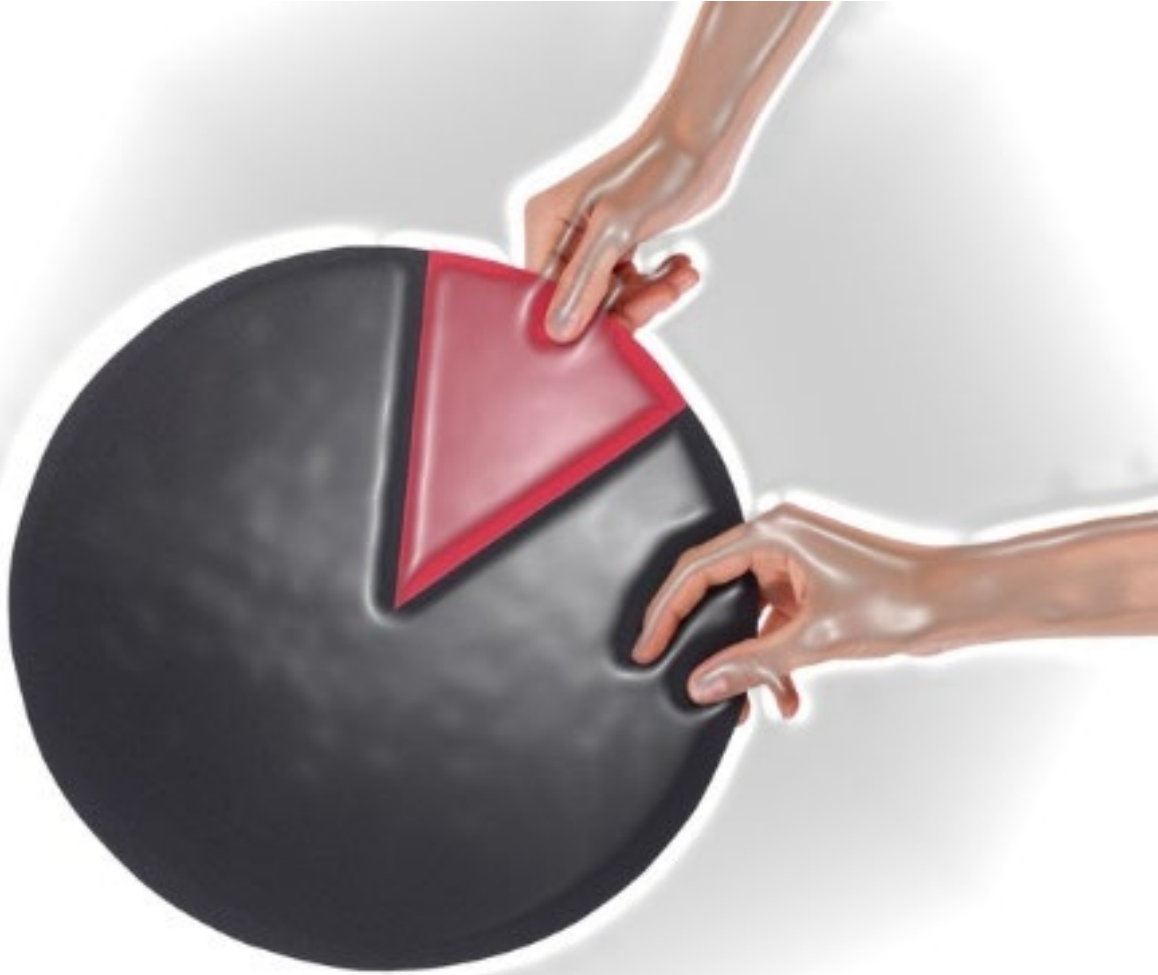
5. Because it changes the reference point for the gift

Wealth is not held in cash.
It is held in noncash **assets**.

If you are asking from the cash bucket, you are asking from the **small** bucket.

Asset gifts feel relatively smaller

"For a wealthy donor, asking for the same gift from assets (where it constitutes a tiny share) rather than from income (where it constitutes a much larger share) may reduce the relative perception of financial loss."



James III, R. (2017). Natural philanthropy: a new evolutionary framework explaining diverse experimental results and informing fundraising practice. *Palgrave Communications*, *3*, 17050, p. 4.

Asset gifts remind us of our wealth

Shoppers entering Broadway Market in Cambridge, MA: Would you like to participate in an experiment and receive this free chocolate bar?

Randomly assigned to answer questions

What's in your wallet/purse? Cash? Credit cards? …

Do you own stocks? Bonds? Certificates of deposit?...

Spent 36% more

Morewedge, C. K., Holtzman, L., & Epley, N. (2007). Unfixed resources: Perceived costs, consumption, and the accessible account effect. *Journal of Consumer Research*, *34*(4), 459-467.

People who <u>feel</u> wealthy <u>act</u> charitably

The strongest predictor of donation amount was subjective feelings about one's wealth, not it's objective adequacy.

Wiepking, P., & Breeze, B. (2012). Feeling poor, acting stingy: The effect of money perceptions on charitable giving. *International Journal of Nonprofit and Voluntary Sector Marketing*, *17*(1), 13-24.

Relative comparisons change this feeling. Making college students feel richer by having them report their savings on a scale ranging from $0 to $500 rather than $0 to $50,000 increased subsequent donations.

Herzenstein, M., & Small, D. (2012). Donating in recessionary times: Resource scarcity, social distance, and charitable giving. *ACR North American Advances*.

6. Because it makes wealth donation-relevant

Mental accounting

People attach labels to financial assets and then treat them differently

Thaler, R. H. (1999). Mental accounting matters. *Journal of Behavioral Decision Making*, *12*(3), 183.

Labeling assets as donation relevant

When a donor makes a gift of a noncash asset, the donation experience can re-categorize that asset class as appropriate for future charitable consideration

Labeling assets as donation relevant

Expanding the total number of budget categories for which a particular charitable donation was arguably relevant increased donations

LaBarge, M. C., & Stinson, J. L. (2014). The role of mental budgeting in philanthropic decision-making. *Nonprofit and Voluntary Sector Quarterly*, *43*(6), 993-1013.

7. Because people are more generous with appreciated assets

Irregular unearned gains – like appreciated assets – generate more giving

People are more likely to spend irregular unearned gains (vs. regular earned income) on luxury goods in general (O'Curry, 1999) **and charitable donations in particular** (Reinstein & Reiner, 2012; Konow, 2010)**.**

Framing a donation as an <u>exceptional</u> event removes it from comparison with regular disposable income budget items and increases giving (Sussman, Sharma, & Alter, 2015)

Konow, J. (2010). Mixed feelings: Theories of and evidence on giving. *Journal of Public Economics, 94*(3-4), 279-297.; O'Curry, S. (1999). Consumer budgeting and mental accounting. In P.E. Earl & S. Kemp (Eds.) *The Elger companion to consumer research and economic psychology.* Northhampton, MA: Cheltenham.; Reinstein, D. & Riener, G. (2012) Decomposing desert and tangibility effects in a charitable giving experiment. *Experimental Economics, 15*(1): 229-240.; Sussman, A. B., Sharma, E., & Alter, A. L. (2015). Framing charitable donations as exceptional expenses increases giving. *Journal of Experimental Psychology: Applied, 21*(2), 130.

Cash is anti-social

Gifts of objects are pro-social

Reminders of cash promote independence and exchange motives, reducing willingness to help and to make donations

Vohs, K. D., Mead, N. L., & Goode, M. R. (2008). Merely activating the concept of money changes personal and interpersonal behavior. *Current Directions in Psychological Science, 17*(3), 208-212.

Savani, K., Mead, N. L., Stillman, T., & Vohs, K. D. (2016). No match for money: Even in intimate relationships and collectivistic cultures, reminders of money weaken sociomoral responses. *Self and Identity, 15*(3), 342-355.

Cash is anti-social

Gifts of objects are pro-social

In contrast, gifts of objects are common in social relationships and emphasize communal norms rather than self-interested exchange relationships and exchange norms

Cheal, D. (1987). Showing them you love them: gift giving and the dialectic of intimacy. *Sociological Review, 35*(1), 150-69.

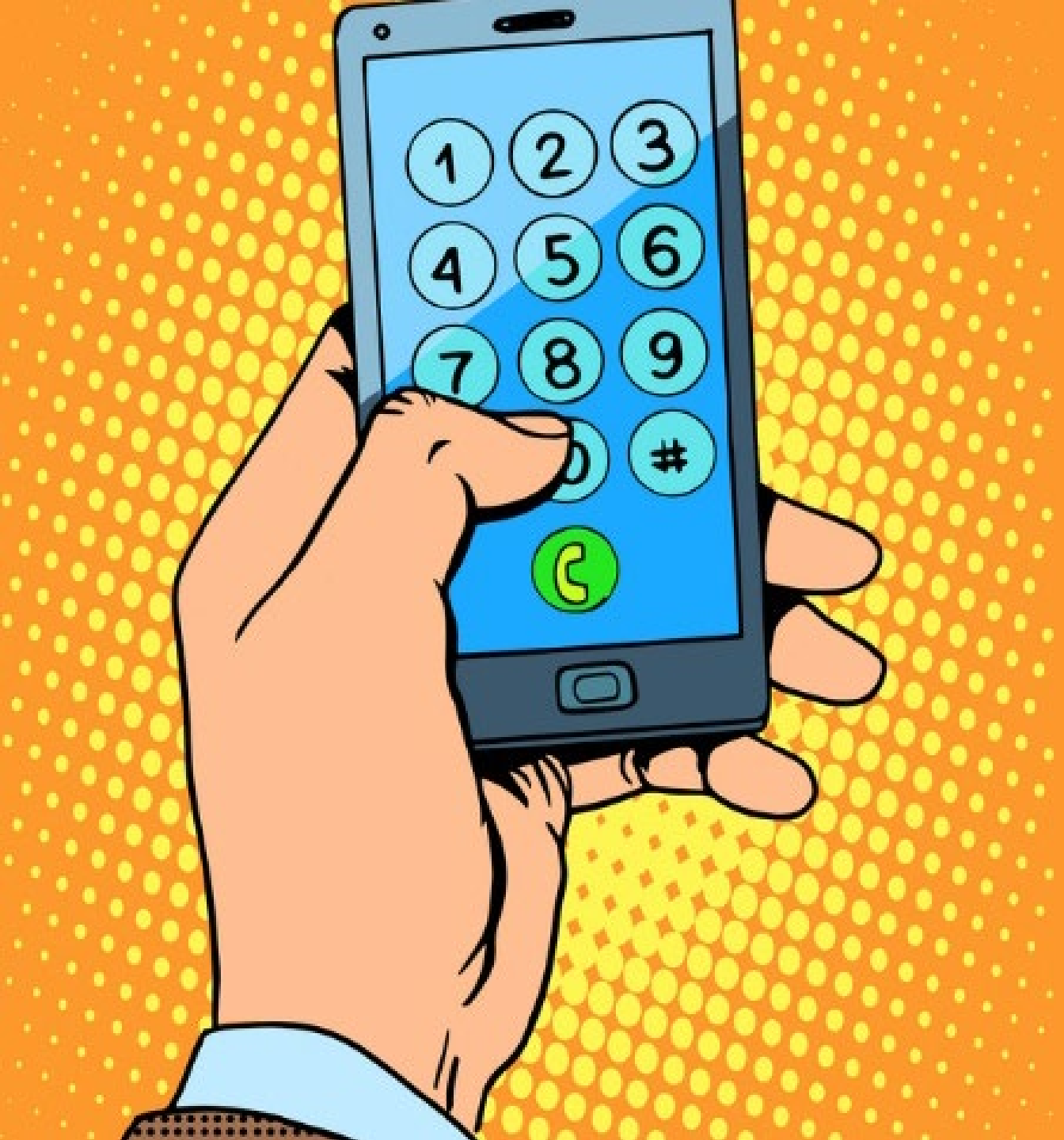
8. Because it changes the fundraiser relationship

Fundraiser technical sophistication

- Organizations promoting and receiving non-cash gifts, especially complex gifts, are more likely to develop technically-skilled fundraisers
- This greater level of financial knowledge changes the relationship from "asking" to "advising" and this leads to long-term fundraising growth
- bit.ly/TexasTechProfessor

Reflect <u>real</u> "donor-centeredness"

- Nonprofits promoting non-cash gifts are willing to increase their hassle *(cash is easier for the charity)* to benefit the donor *(gifts of appreciated assets are cheaper for the donor)*
- Action, not just talk



Appreciated asset gifts are objectively cheaper

Donors can give more at the same net cost

Appreciated asset gifts are objectively cheaper

Asset gifts are cheaper for itemizers

$100k Cash

Donor

Nonprofit

Income tax deduction
($100,000 x 37%)
$37,000

Costs $63,000

$100k Stock

Donor

Nonprofit

$37,000
+
Avoid capital gains
($90,000 x 23.8%)
$21,240

Costs $41,760

9. Because if you don't, someone else won't – at least not how you want it

- Financial advisors are compensated based on assets under management (AUM).
- AUM increases with charitable instruments that do not deliver benefit to charities for a very long time.
- Donor advised funds, private foundations, and charitable remainder trusts that pay to them increase AUM.

10. Because it drives long-term fundraising growth

James III, R. N. (2018). Cash is not king for fund-raising: Gifts of noncash assets predict current and future contributions growth. *Nonprofit Management and Leadership*, *29*(2), 159-179.

5-year average growth in total fundraising

(2010 to 2015)

NONPROFITS receiving **ONLY CASH** gifts

2,548 nonprofits raising $1MM+ in 2010 reported only cash gifts in 2010 & 2015 on e-file IRS-990

GROWTH

NONPROFITS receiving **ANY NONCASH** gifts

4,236 nonprofits raising $1MM+ in 2010 reported noncash gifts in 2010 & 2015 on e-file IRS-990

GROWTH

NONPROFITS receiving **SECURITIES NONCASH** gifts

2,143 nonprofits raising $1MM+ in 2010 reported securities gifts in 2010 & 2015 on e-file IRS-990

GROWTH

5-year average growth in total fundraising

(2010 to 2015)

NONPROFITS receiving ONLY CASH gifts

2,548 nonprofits raising $1MM+ in 2010 reported only cash gifts in 2010 & 2015 on e-file IRS-990

11% GROWTH

NONPROFITS receiving ANY NONCASH gifts

4,236 nonprofits raising $1MM+ in 2010 reported noncash gifts in 2010 & 2015 on e-file IRS-990

50% GROWTH

NONPROFITS receiving SECURITIES NONCASH gifts

2,143 nonprofits raising $1MM+ in 2010 reported securities gifts in 2010 & 2015 on e-file IRS-990

66% GROWTH

3-year average growth in total fundraising

(2010 to 2013; 2011 to 2014; 2012 to 2015; 2013 to 2016)

NONPROFITS receiving ONLY CASH

Years	Average Total Fundraising Growth
'10-'13 =	5%
'11-'14 =	1%
'12-'15 =	2%
'13-'16 =	0%

NONPROFITS receiving ANY NONCASH

Years	Average Total Fundraising Growth
'10-'13 =	34%
'11-'14 =	30%
'12-'15 =	30%
'13-'16 =	25%

NONPROFITS receiving SECURITIES NONCASH

Years	Average Total Fundraising Growth
'10-'13 =	44%
'11-'14 =	42%
'12-'15 =	39%
'13-'16 =	33%

5-year total fundraising growth by initial level of total contributions

	$100K to <$500K	$500K to <$1MM	$1MM to <$2MM	$2MM to <$3MM	$3MM to <$5MM	$5MM to <$10MM	$10MM+
Nonprofits reporting **only cash** contributions in 2010 & 2015 on e-IRS 990s	56% [n=9168]	25% [n=2397]	14% [n=1343]	18% [n=478]	0% [n=358]	0% [n=223]	26% [n=146]
Nonprofits reporting **any noncash** contributions in 2010 & 2015 on e-IRS 990s	137% [n=2278]	71% [n=1373]	60% [n=1215]	58% [n=652]	48% [n=728]	36% [n=679]	35% [n=962]
Nonprofits reporting **securities** contributions in 2010 & 2015 on e-IRS 990s	400% [n=114]	176% [n=187]	103% [n=340]	94% [n=284]	68% [n=385]	50% [n=427]	43% [n=707]

What happens IN THE SAME YEAR when gifts shift from cash to assets?

When share from **CASH GROWS** by +10% total contributions fall by

-13%

When share from **SECURITIES GROWS** by +10% total contributions grow by

+18%

When share from **REAL ESTATE GROWS** by +10% total contributions grow by

+26%

*Fixed effects regression analysis of the **761,876** e-filed IRS Form 990s reporting positive contribution amounts from **205,696 organizations** in 2010-2016.*

Gifts from larger asset types have more impact

Same year effect of a 10% ratio shift (asset type/total giving) for nonprofits already reporting substantial noncash gifts

Doesn't help	**none/minimal**	**Books, Food, Collectibles, Uncategorized**
Helps a little	**+2% to +3%**	**Cars, Boats, Household goods, Art, Pharmaceuticals**
Definitely helps	**+7%**	**Publicly-traded securities, Historical art & artifacts**
Helps a lot	**+14% to +18%**	**Real estate, Non-publicly-traded securities**

How can we raise these gifts now?
(simple version)

Crisis is the time to show support

- A social/friendship/family relationship encourages sharing
- A transactional/market/exchange relationship does not
- When you might be in trouble, a good friend is one who reaches out to help
- Ideally, the first contact with donors in a time such as this should begin with concern

“Permission Marketing” Conversations

“The family is doing well. We’ve just had a lot of enforced family togetherness.

I’ve still been busy for work, mostly talking to people about how to give smarter with all this market volatility and the new tax benefits.

So, it hasn’t slowed down.”

…mostly working with the leadership trying to plan how to rebuild after taking the hit from the season being cancelled.

Kraft cheered for bringing in masks on Patriots team plane to fight coronavirus

By Travis Andersen and Dan Adams Globe Staff, Updated April 2, 2020, 8:02 p.m.

50

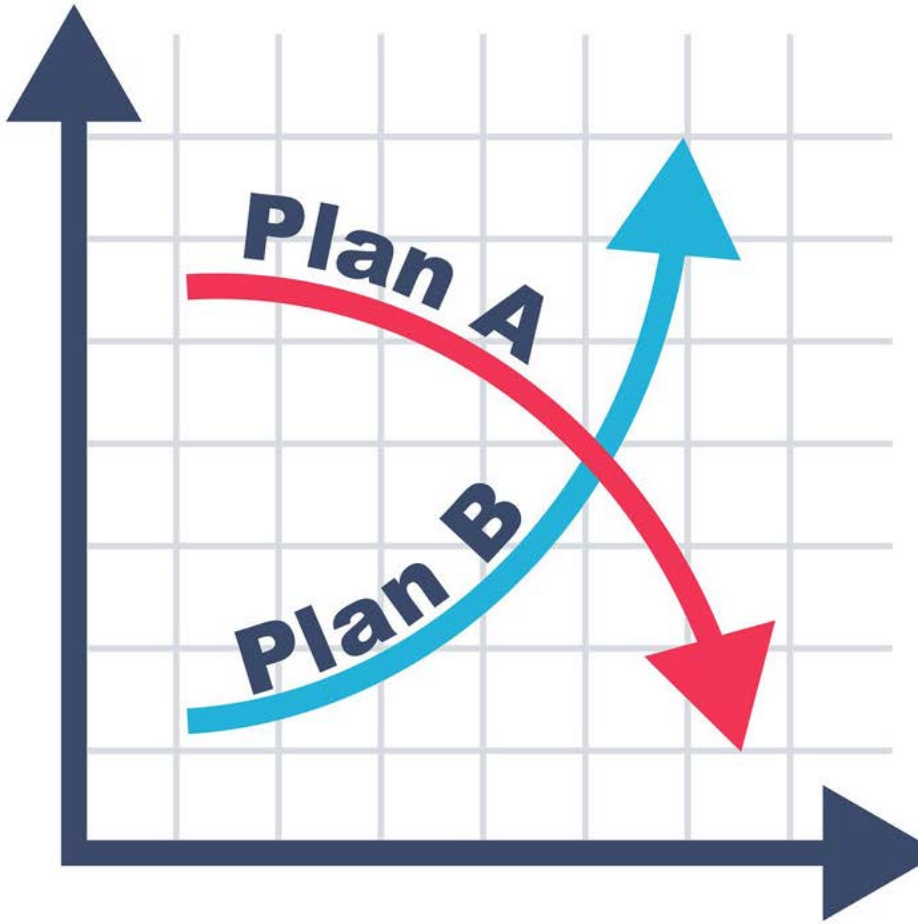
Crisis Creates Opportunities for Donor Heroism

- During a fire, heroism is limited to rescuing people or putting the fire out
- But after the fire, heroism will be about the choice to rebuild
- Some nonprofits will never recover from this hit
- Some will rebuild stronger
- The difference will depend on donor heroism. When the time is right, give your donors the chance to be heroes!

One-time special requests work well, but be careful with a crisis

- In fundraising experiments, people are more willing to donate in response to a special, one-time need than for ongoing needs
- However, it is important in such appeals to identify the crisis as a crisis for beneficiaries or for the cause, **not** an organizational crisis

Sussman, A. B., Sharma, E., & Alter, A. L. (2015). Framing charitable donations as exceptional expenses increases giving. *Journal of Experimental Psychology: Applied, 21*(2), 130.

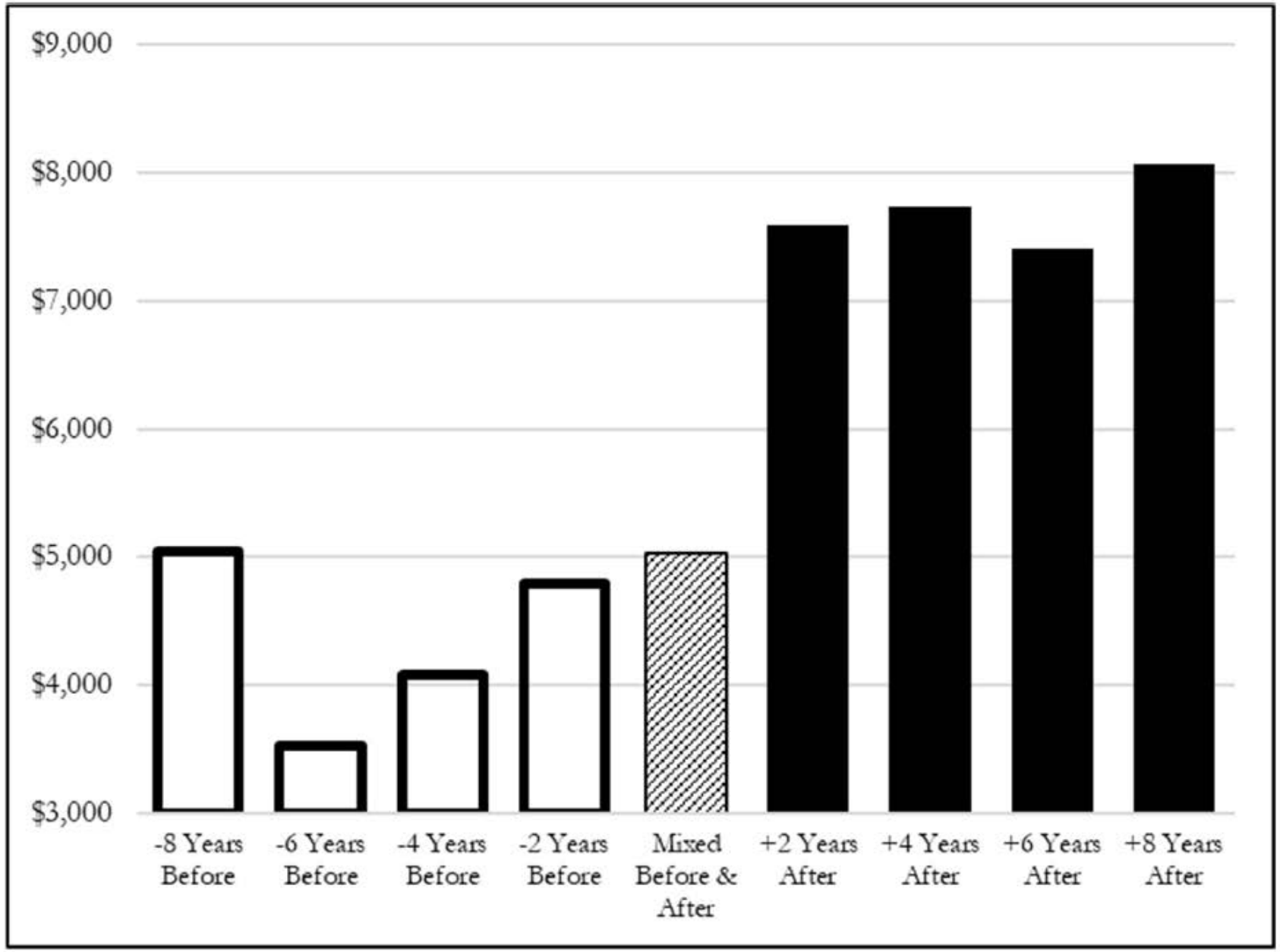


Use planned gifts and your plan B

- If a donor needs to back away from a commitment or feels that a gift today is too daunting, consider a planned gift as a “plan B”
- Planned giving opportunities can help “lean into” this uncertainty
- Legacy gifts are revocable, can vary with ups and downs as a percentage of the estate, and take place after we no longer need the money
- In the U.S., irrevocable planned gifts can also help with financial uncertainty

“I certainly understand your concerns, I know others in your same situation who have decided to move their commitment into an estate gift for now. This provides flexibility with no upfront cost. There are even ways to do it that provide tax benefits. Would you be interested in learning more about these options?”

Figure 1. Average Annual Charitable Donations Before and After Adding Charity to an Estate Plan



James III, R. N. (2020). The Emerging Potential of Longitudinal Empirical Research in Estate Planning: Examples from Charitable Bequests. ***UC Davis Law Review***, 53, 2397-2431.

https://lawreview.law.ucdavis.edu

The Oblique Conversation

4 S

1. Story
2. Story
3. Story
4. Shut up

Concept from
Jeff Comfort,
Oregon State University

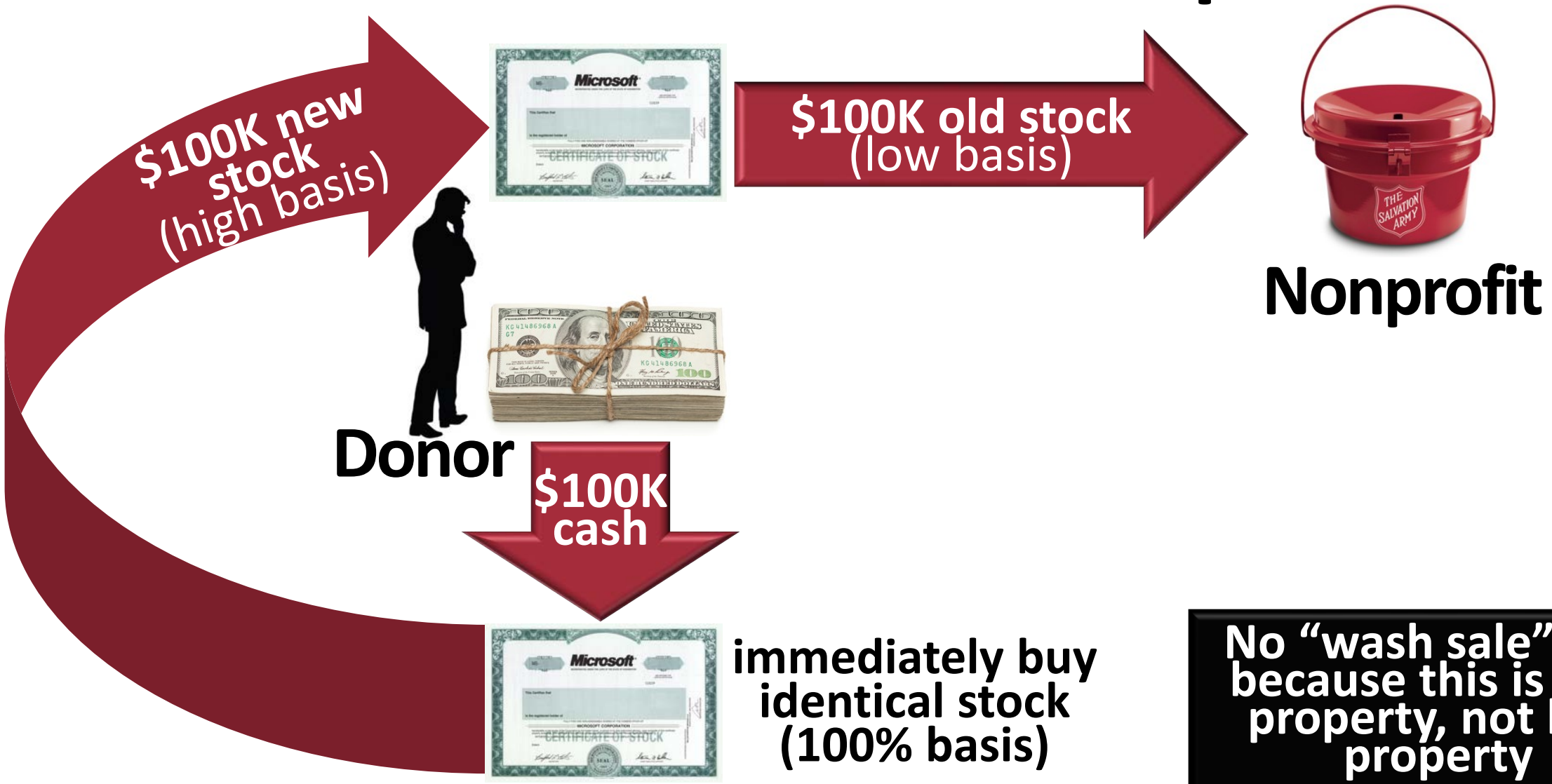
So, what's new at Texas Tech?

1. … new coach …
2. … new building …
3. Oh, and Mary Smith did a neat thing. Did you know Mary? She graduated two years before you... No? Well, Mary spent her career helping other people get their finances in order. She recently signed a new will that one day will endow a permanent scholarship for our financial planning students.

A simple way to ask from the big bucket…

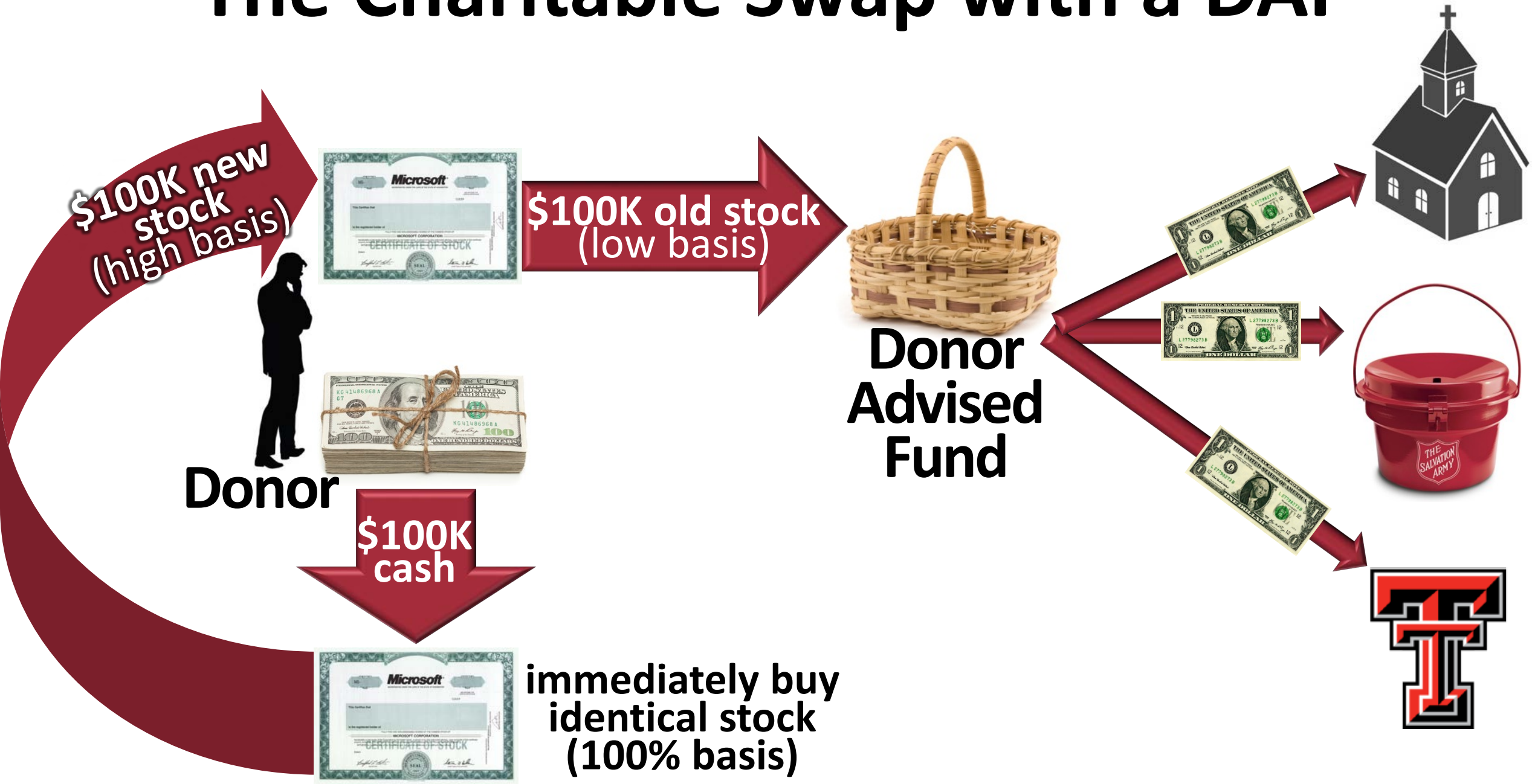
No need to change your portfolio!

The Charitable Swap

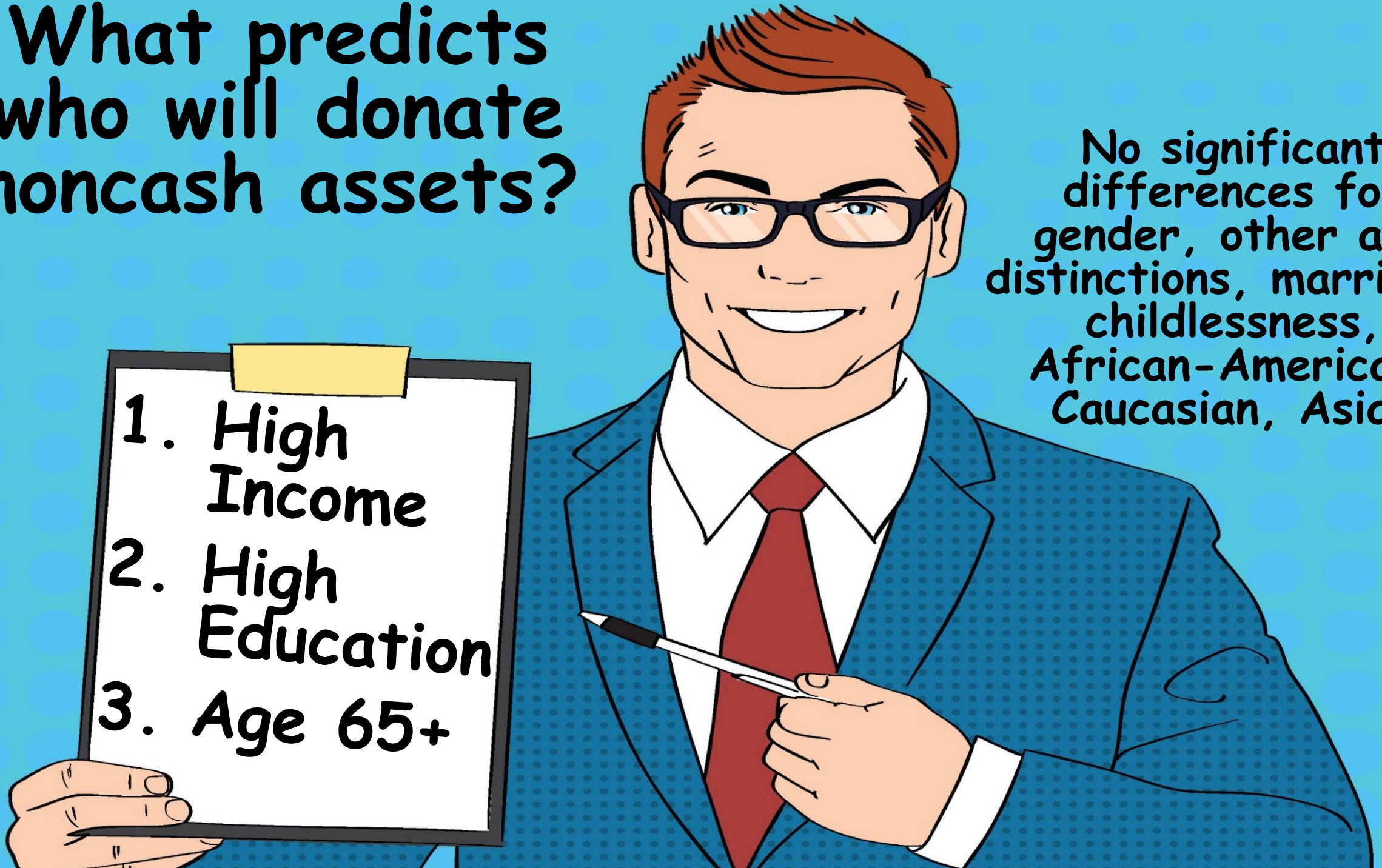


No "wash sale" rule because this is gain property, not loss property

The Charitable Swap with a DAF



What predicts who will donate noncash assets?



No significant differences for gender, other age distinctions, marriage, childlessness, African-American, Caucasian, Asian

Tax incentives matter more

1. Giving cash to education was **2x more responsive to tax price** than giving cash to religion
2. Giving stocks, bonds, or mutual funds to any charity was **10x more responsive to tax price** than giving cash to education

How to talk about gifts of assets

Should you mention tax benefits?

Social Desirability Bias

James, R. N., III (2018). Describing complex charitable giving instruments: Experimental tests of technical finance terms and tax benefits. Nonprofit Management and Leadership. Advance Online Publication. DOI: 10.1002/nml.31302

Mentioning tax deductions increases charitable interest

	Interested Now *definitely/somewhat/slightly*	Will Never Be Interested
Avoid capital gains tax by making a gift of stocks or bonds to a charity.	**20%**	**17%**
Make a gift of stocks or bonds to charity.	**14%**	**23%**

Random assignment

1,006 Respondents
Groups X/Y

James, R. N., III (2018). Describing complex charitable giving instruments: Experimental tests of technical finance terms and tax benefits. Nonprofit Management and Leadership. Advance Online Publication. DOI: 10.1002/nml.31302

Mentioning tax deductions increases charitable interest

Random rotating assignment

Interested Now *definitely/somewhat/slightly*		Will Never Be Interested
50%	**Receive a tax deduction and** make a gift that pays you income for life.	**8%**
33%	Make a gift that pays you income for life **and receive a tax deduction.**	**14%**
31%	Make a gift that pays you income for life.	**20%**

1,904 Respondents
*Groups D/E/**F***

James, R. N., III (2018). Describing complex charitable giving instruments: Experimental tests of technical finance terms and tax benefits. Nonprofit Management and Leadership. Advance Online Publication. DOI: 10.1002/nml.31302

Mentioning tax deductions increases charitable interest

Random rotating assignment

Interested Now *definitely/somewhat/slightly*		Will Never Be Interested
26%	**Immediately receive a tax deduction for 70% of the value of a house or land by** making a charitable gift of the property, but keeping the RIGHT TO USE it for the rest of your life.	**23%**
12%	Make a charitable gift of either a house or land, but keep the RIGHT TO USE for the rest of your life **and immediately receive a tax deduction for 70% of the value of the property.**	**33%**
11%	Make a charitable gift of either a house or land, but keep the RIGHT TO USE it for the rest of your life.	**42%**

*1,826 Respondents, Groups F/B/**D***

James, R. N., III (2018). Describing complex charitable giving instruments: Experimental tests of technical finance terms and tax benefits. Nonprofit Management and Leadership. Advance Online Publication. DOI: 10.1002/nml.31302

Mentioning tax deductions increases charitable interest

Random rotating assignment

Interested Now *definitely/somewhat/slightly*		Will Never Be Interested
28%	**Get an immediate tax deduction** by making a gift where you still control the investment of the assets, and receive income from the investments for the rest of your life with anything left over going to charity at your death.	**17%**
27%	Make a gift where you **get an immediate tax deduction**, still control the investment of the assets and receive income from the investments for the rest of your life with anything left over going to charity at your death.	**20%**
21%	Make a gift where you still control the investment of the assets, and receive income from the investments for the rest of your life with anything left over going to charity at your death.	**25%**

*1,782 Respondents, Groups E/A/**C***

Best phrasing to describe tax benefits

Please rate your level of interest in clicking on the button to read the corresponding information.

I might be/am definitely interested	
___%	**Avoid taxes by giving stocks**
___%	**How to avoid taxes by giving stocks**
___%	**Save taxes by giving stocks**
___%	**Tax tips when giving stocks**
___%	**Avoiding capital gains taxes by giving stocks**
___%	**Giving stocks**

Please rate your level of interest in clicking on the button to read the corresponding information.

I might be/am definitely interested	
28%	**Avoid taxes by giving stocks**
27%	**How to avoid taxes by giving stocks**
25%	**Save taxes by giving stocks**
24%	**Tax tips when giving stocks**
24%	**Avoiding capital gains taxes by giving stocks**
16%	**Giving stocks**

James, R. N., III (2018). Describing complex charitable giving instruments: Experimental tests of technical finance terms and tax benefits. Nonprofit Management and Leadership. Advance Online Publication. DOI: 10.1002/nml.31302


Mentioning tax benefits works, but it isn't "the reason"

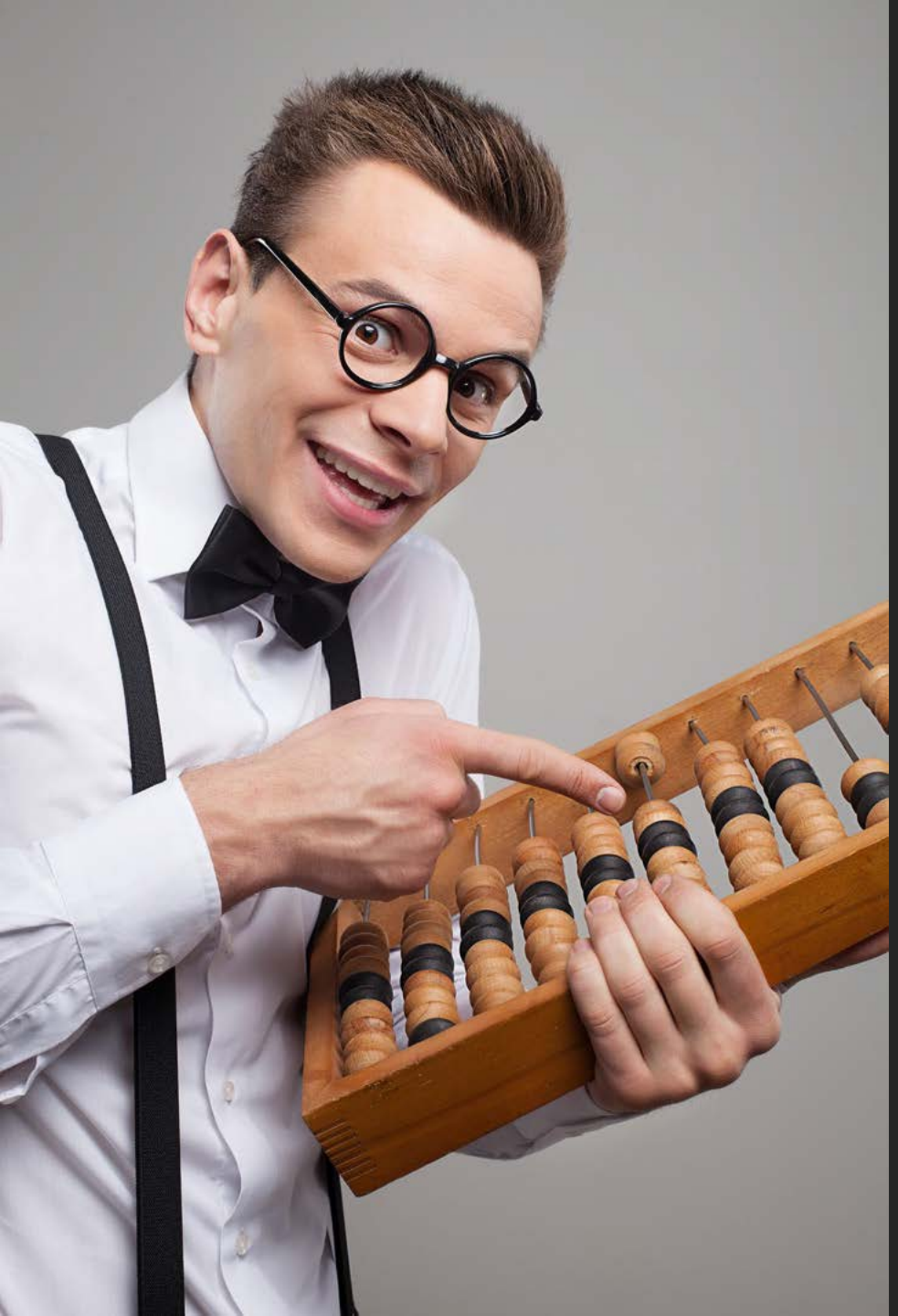

How can I convince the board this is important?
What's a compelling argument?

Room for growth at Texas Tech University?

	2017 Texas Tech Foundation	2017 Iowa State University Foundation
Total contributions	$70,971,175	$182,944,883
Noncash contributions	$7,475,636	$109,538,183
Noncash share	10.5%	59.9%
Publicly traded securities	X	X
Closely held securities		X
Partnerships, LLC, trust interests		X
Miscellaneous securities		X
Residential real estate		X
Commercial real estate		X
Art		X
Historical Art		X
Books		X
Collectibles		X
Historical Artifacts		X
Other-Grain, Gold, Life Insurance	1 gift	102 gifts

Accepting noncash gifts is safer today

- Using DAFs that accept any asset type
- Using new instruments like the single-asset LLC



How can we raise these gifts now? (complex version)

$1MM in standard IRA (withdraws are taxable)

Roth Conversion

$1MM in Roth IRA (withdraws are tax free and no owner RMD)

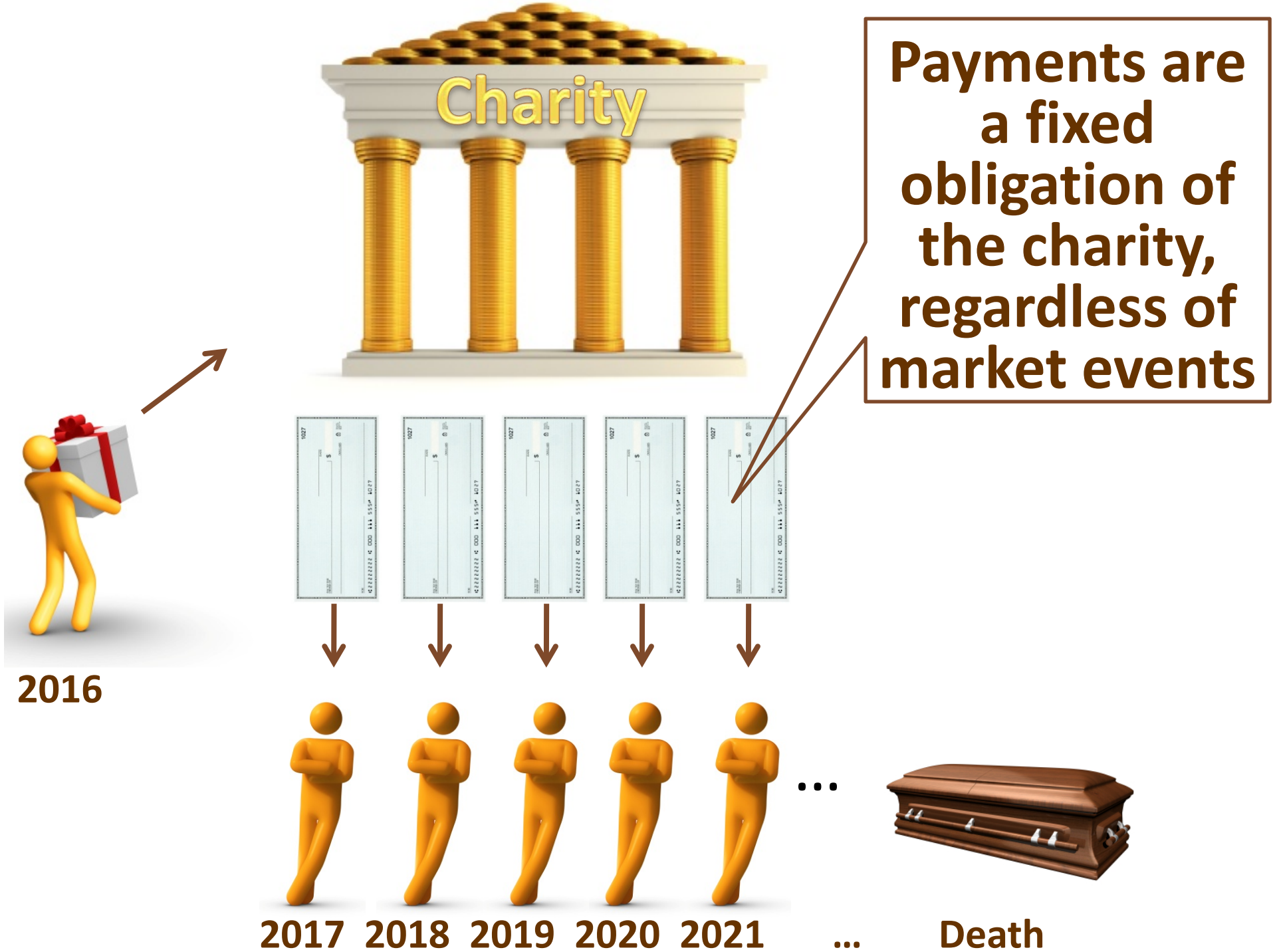
Conversion creates $1MM in immediate taxable income

Accelerating a multi-year pledge by writing the check now can fit with a Roth conversion.

This year only, donors can eliminate 100% of income with gifts of cash to an operating public charity.

Charitable Gift Annuities

The hot new item?


Charity
Payments are a fixed obligation of the charity, regardless of market events
2016
2017
2018
2019
2020
2021
...
...
Death

Example donor ages & rates

July 2020, American Council on Gift Annuities

30	2.1%
40	2.6%
45	2.9%
50	3.3%
55	3.7%
60	3.9%
65	4.2%
70	4.7%
75	5.4%
80	6.5%
85	7.6%
90+	8.6%

I want income
that won’t change
(CRUT or PIF)
or run out
(CRAT)

Large charitable gift annuity use increased following market volatility

A charitable remainder annuity trust backed by donor's initial investment

A charitable gift annuity backed by all assets of a large charitable institution

Yale University

American Cancer Society®

American Red Cross

“I certainly understand your concerns. I know others like you who have decided instead to make a gift that gives them lifetime income. With interest rates being so low and the market being so volatile, many people like the fixed payments coming from a charitable gift annuity. Would you like to learn more about this?”

"I certainly understand your concerns. Another donor was in your same situation and she decided to protect against this volatility by making the gift in two stages. First, she made a gift that gave her annual payments for life. If things go downhill, she has this income. But, if everything turns around and she ends up not needing the extra money, then she could donate those future payments as a second gift."

A charitable gift annuity as a two-stage gift

New attraction to CGAs

If funded with cash, the income tax deduction can eliminate 100% of income in 2020. (Connect with me on LinkedIn for the full paper on this.)

If the donor can’t use charitable tax deductions, lower interest rates are better for CGAs because a larger share of the annual payments will be considered as tax-free return of the original investment.

Where new CGA gifts grew +50% or more 2013-2017

26 organizations in ACGA surveys

+50%

Where new CGA gifts fell -50% or more 2013-2017

-50%

40 organizations in ACGA surveys

Where new CGA gifts grew +50% or more 2013-2017

Share of CGA gifts from cash **fell by 24%**

Avg contract size grew by $122,000

Where new CGA gifts fell -50% or more 2013-2017

Share of CGA gifts from cash **rose by 4%**

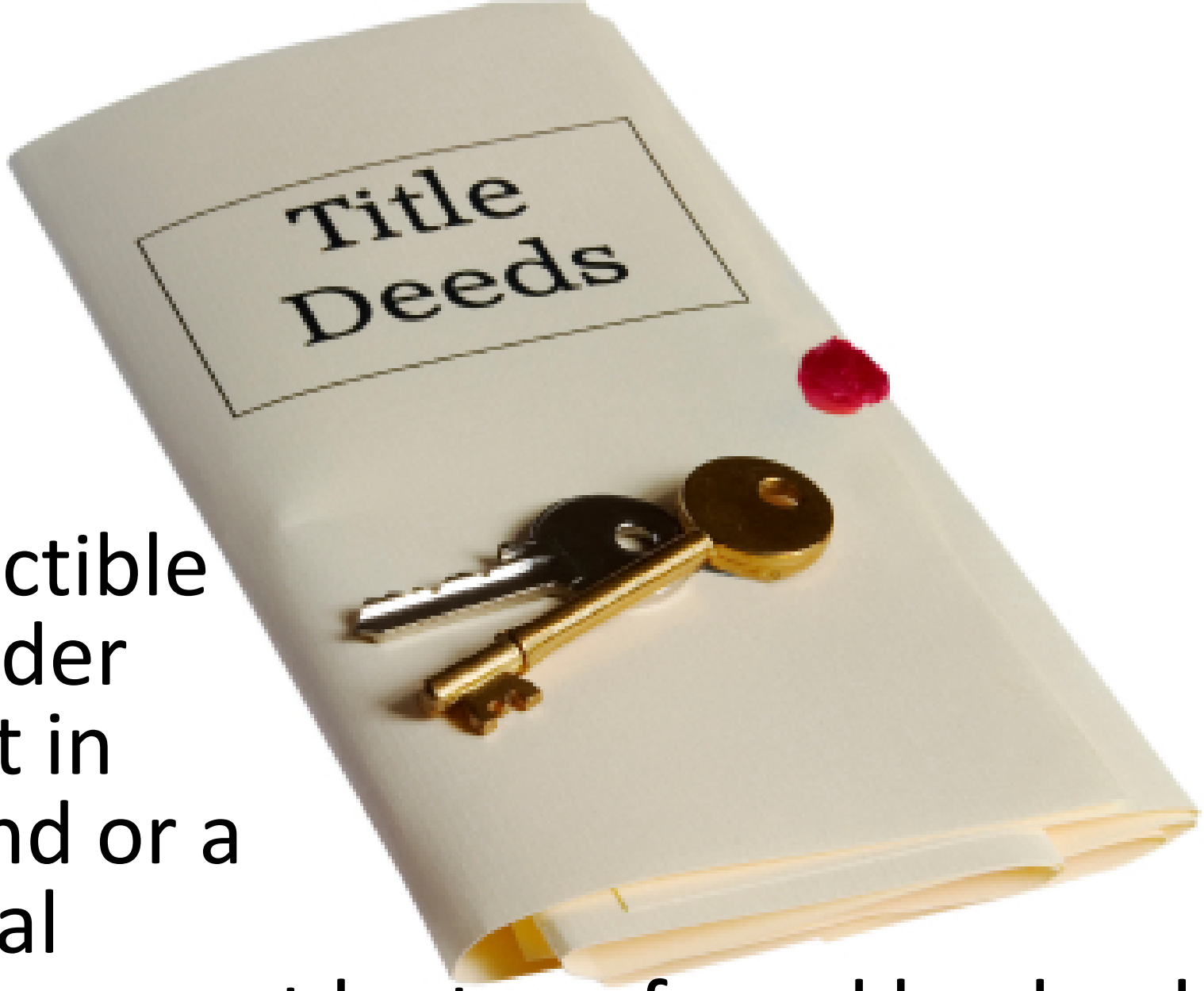
Avg contract size fell by $47,000

Retained Life Estates & Remainder Interests in Homes and Farms

A remainder interest gives the right to own the property after a set time or after the death of a person

Remainder Interest

Unlike a will, a remainder interest is not revocable, and can even be sold



A deductible remainder interest in farmland or a personal residence must be transferred by deed, not by trust or contract

Charitable deduction for remainder interest deed with retained life estate in $1,000,000 of farmland by age 55 donor

11.6% (May 89)

$122,350

0.4% (Sept 20)

$903,710

You can use the tax savings to buy life insurance for heirs who weren’t going to farm anyway

Leaving land to charity **by will**

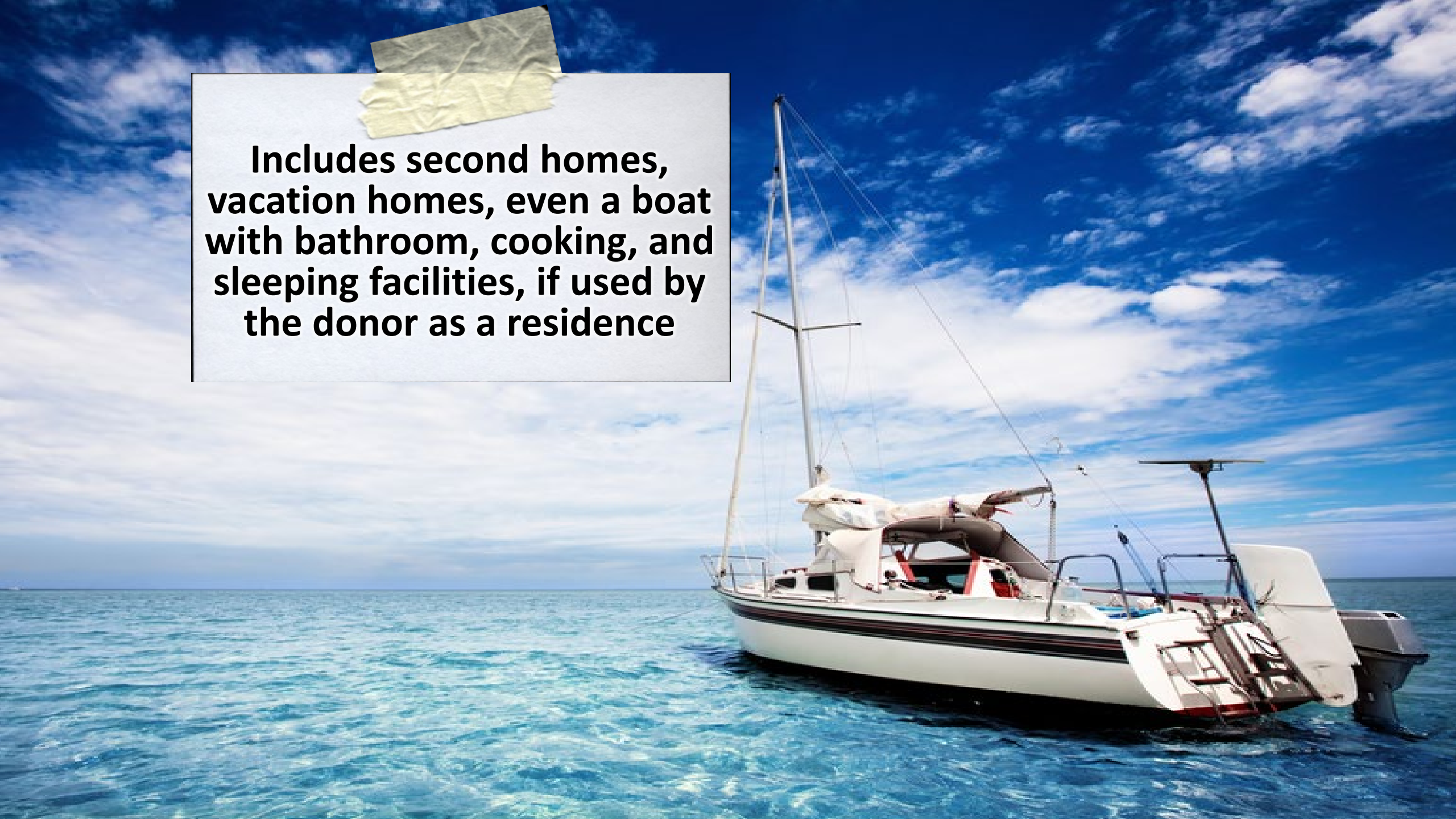
- Revocable
- $0 tax deduction
- Impacts charity after death

Leaving land to charity **by remainder deed**

- Irrevocable
- Immediate income tax deduction
- Impacts charity after death or immediately if charity sells remainder interest
- Immediately increases cash assets available for income producing investments

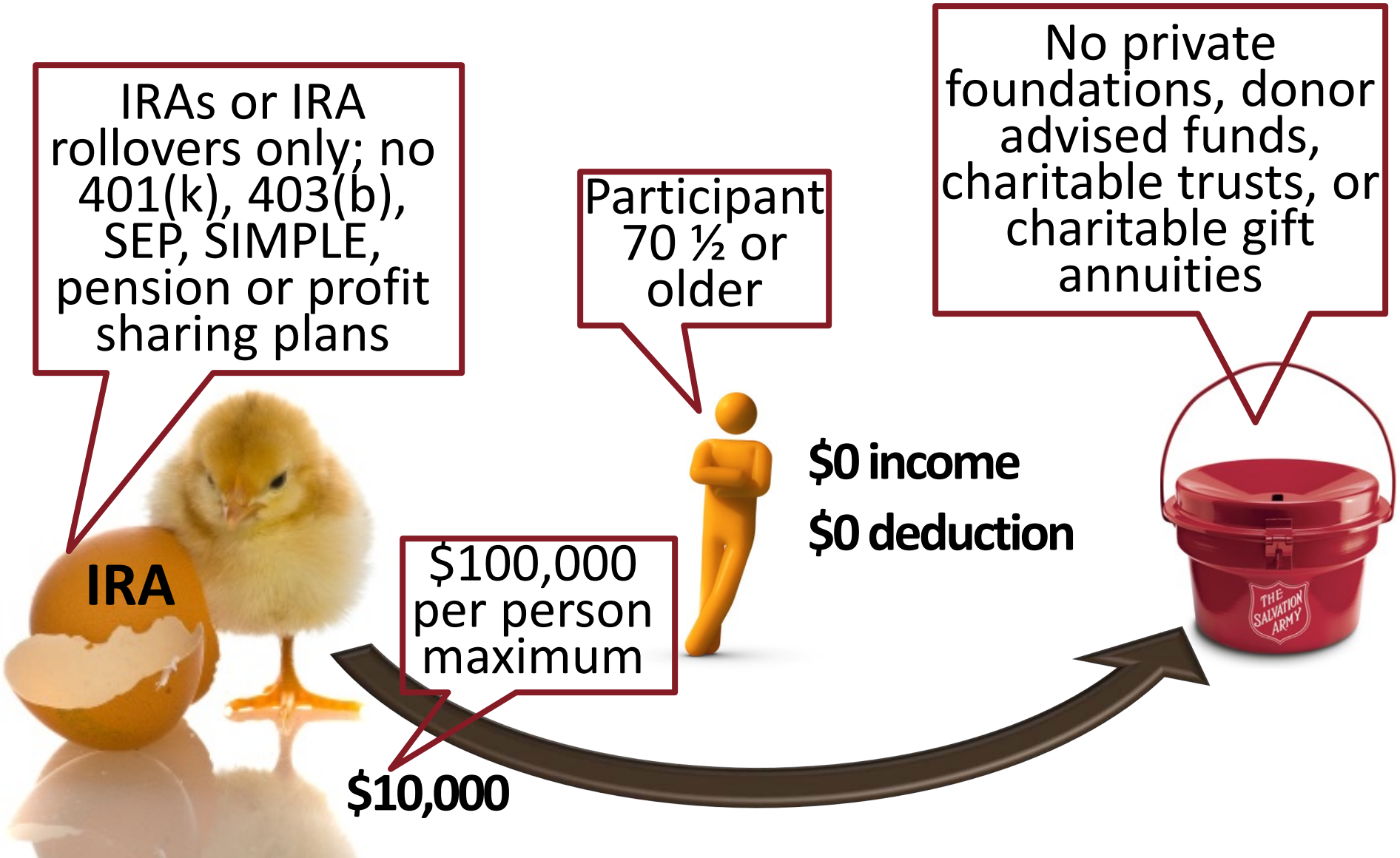
Remainder Interest

Gifts of a remainder interest with retained life estate in the donor’s personal residences can also be deducted



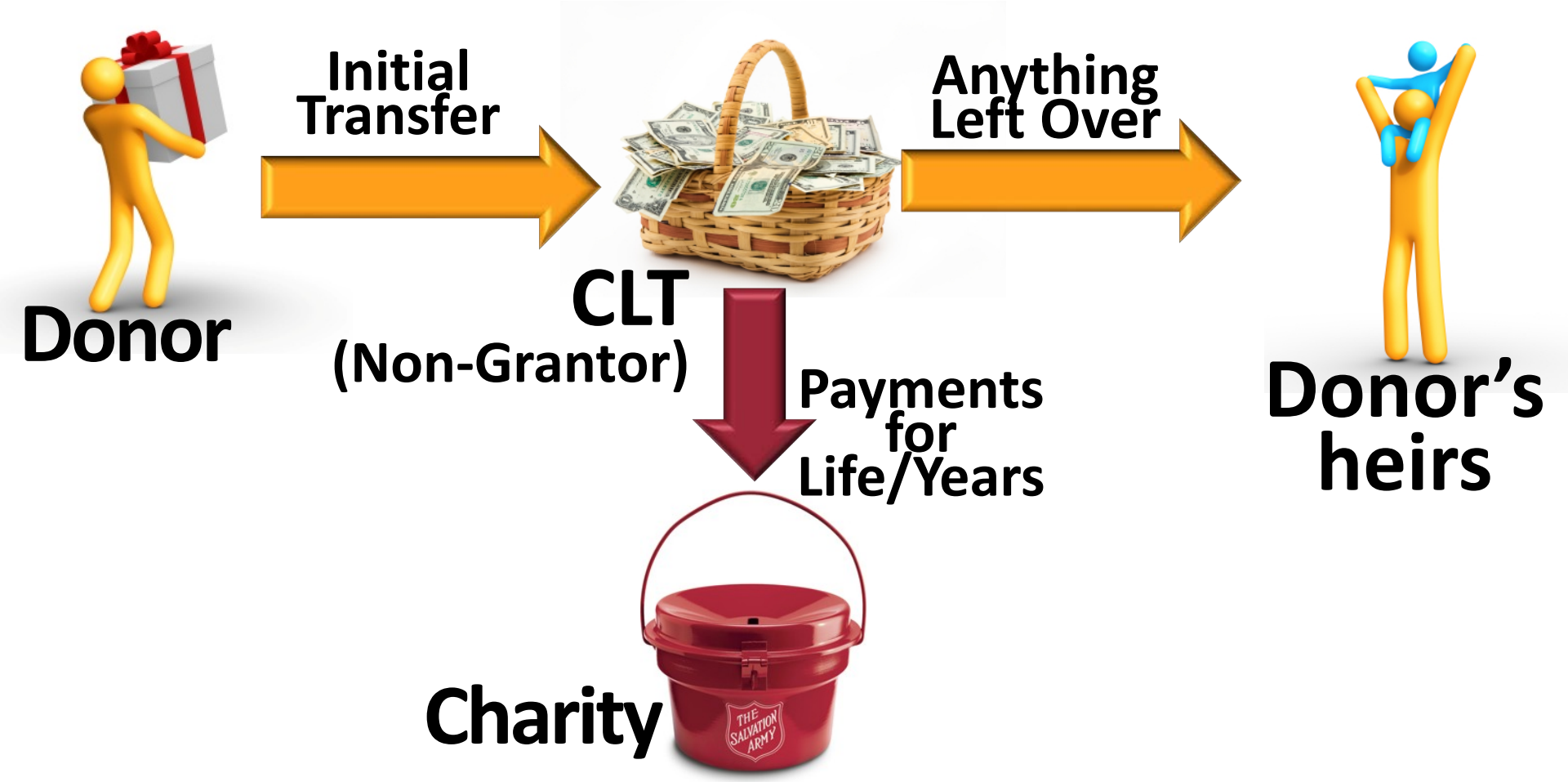
Includes second homes, vacation homes, even a boat with bathroom, cooking, and sleeping facilities, if used by the donor as a residence

No Required Minimum Distributions for 2020, but you can still give up to $100,000 with QCDs!



Non-Grantor Charitable Lead Trust

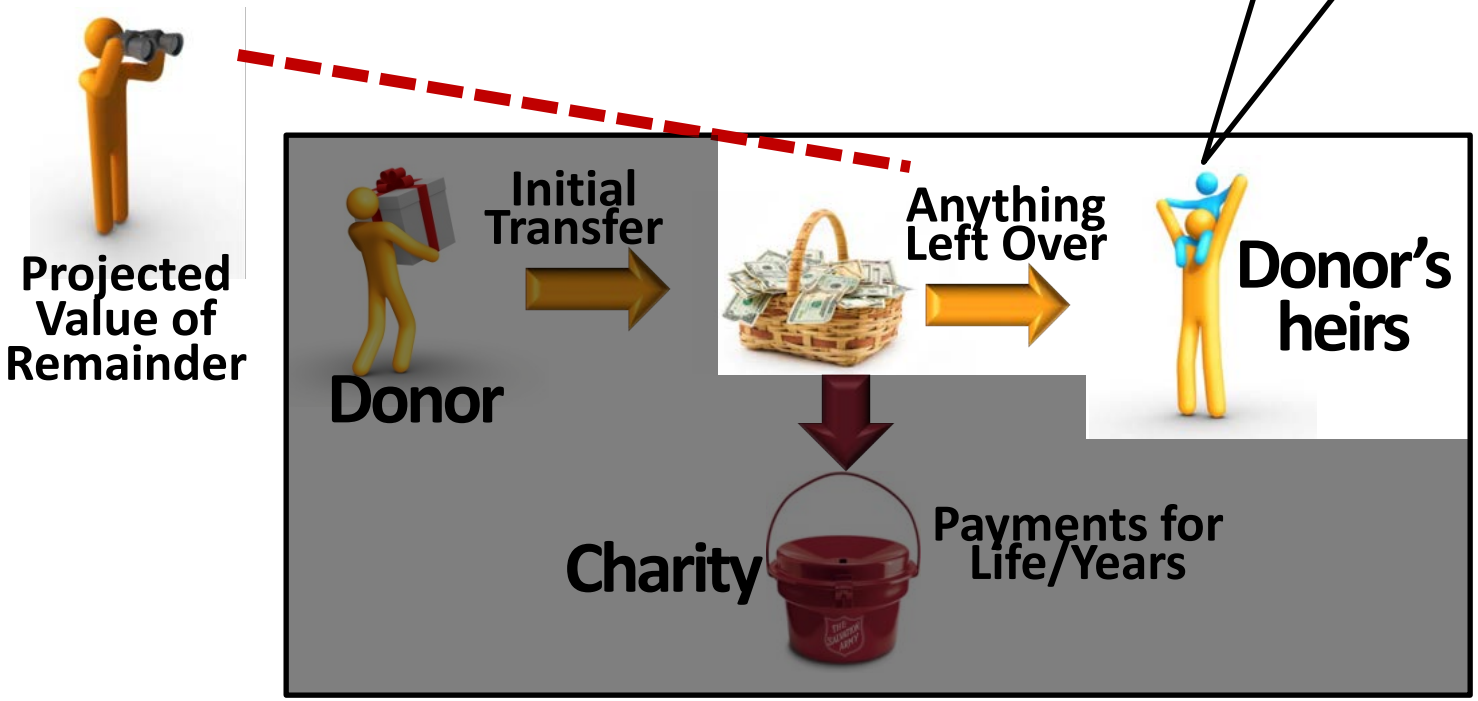
Donor gives money from which charity receives payments, with remaining amount going to family members



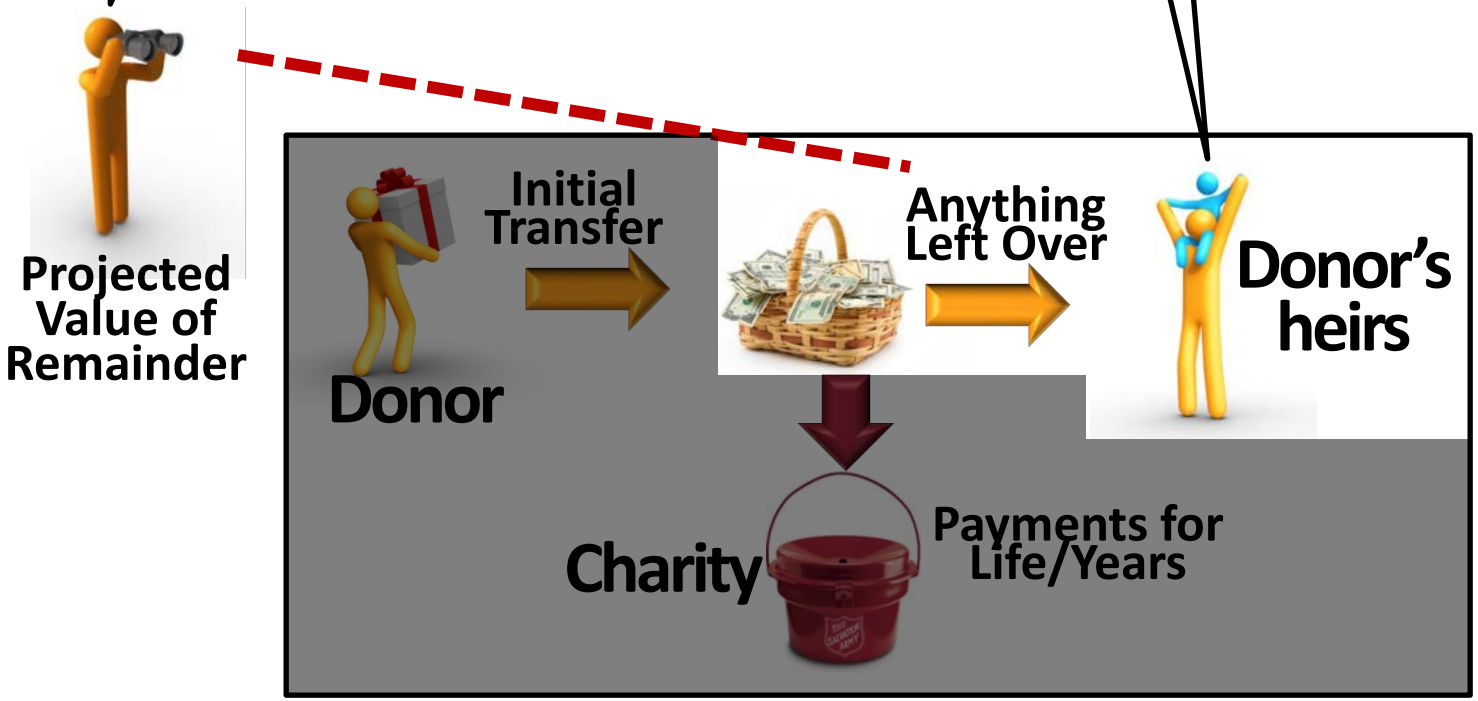
Using non-grantor Charitable Lead Trusts to cut gift and estate taxes

Gift taxes are paid on the present value of the **PROJECTED** remainder going to the heirs

Gift taxes are not paid on the **ACTUAL** remainder that eventually goes to the heirs



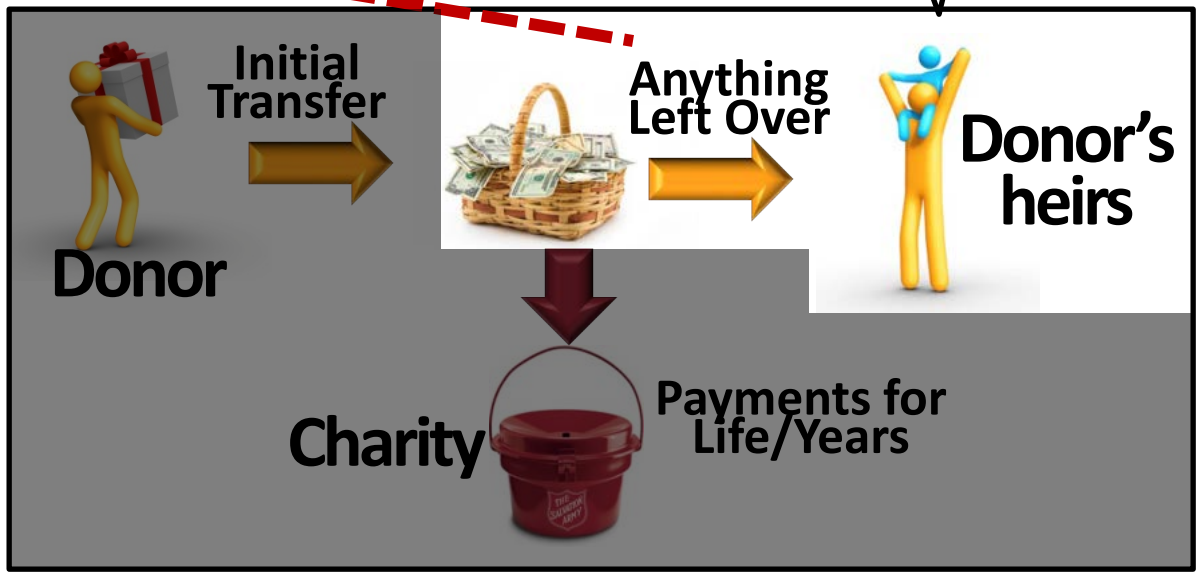
If the **ACTUAL** amount is higher than the **PROJECTED** amount, this part goes to heirs tax free



The **PROJECTED** remainder assumes investment growth at the **INITIAL** §7520 rate

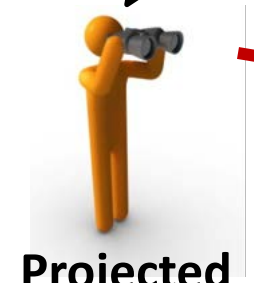
If actual growth is greater than the §7520 rate, the **ACTUAL** remainder will be greater than projected

Projected Value of Remainder

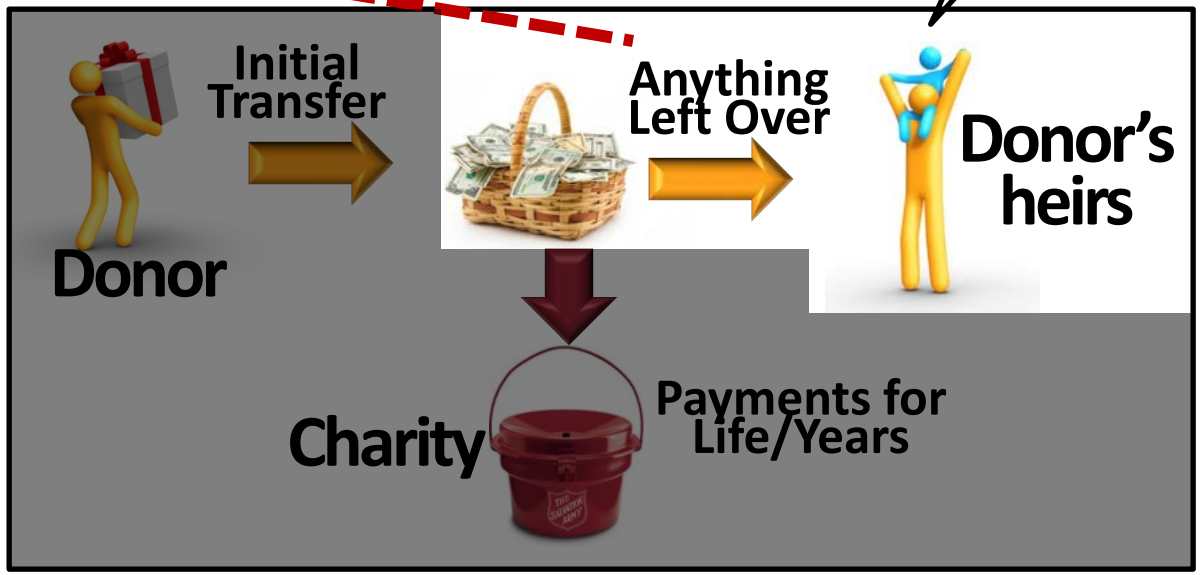


The **PROJECTED** remainder of $10MM at 0.4% §7520 with $521,266/year charitable payments for 20 years is $0, resulting in $0 gift taxation

If actual growth is 8%, the **ACTUAL** remainder will be $22,755,415

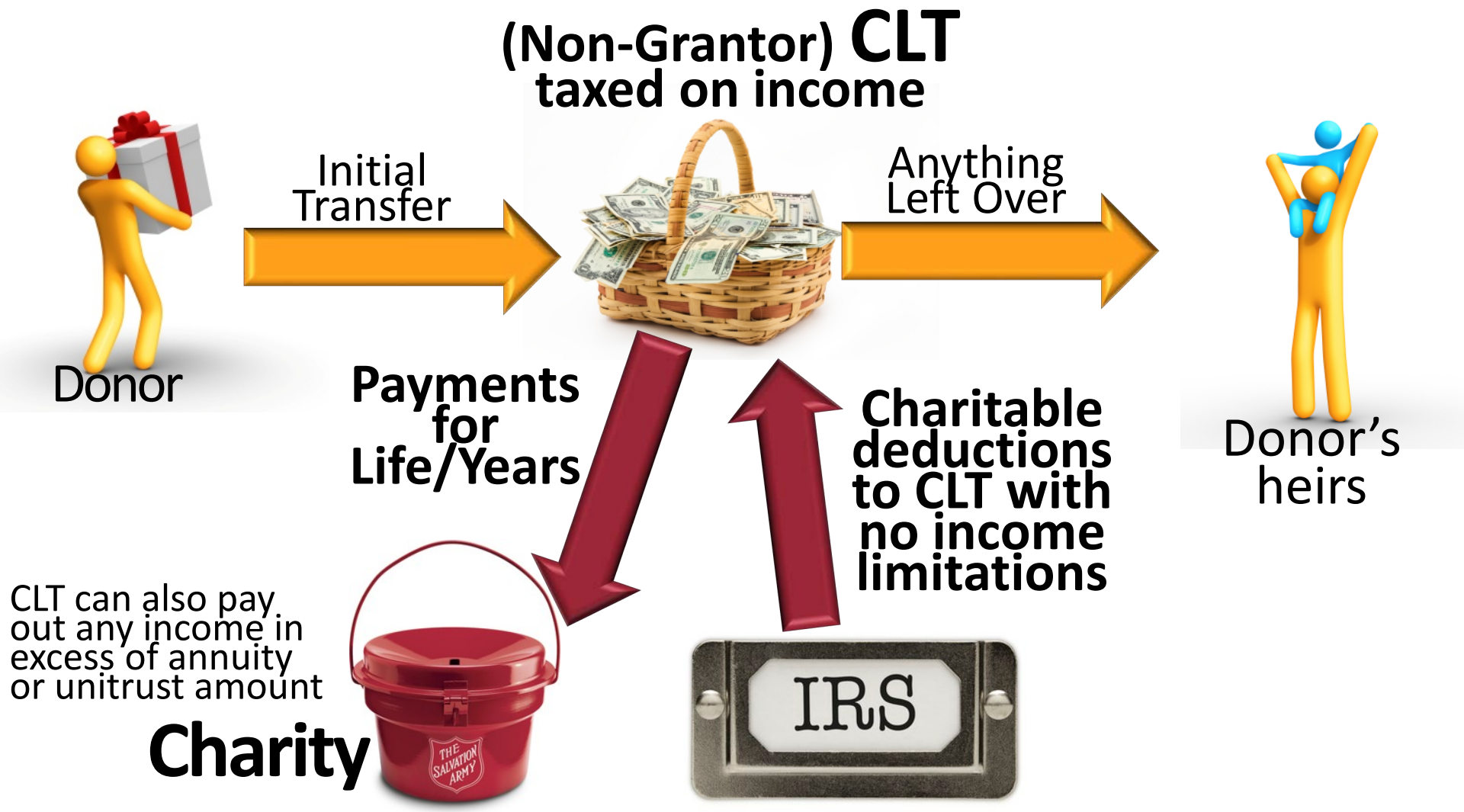


Projected Value of Remainder



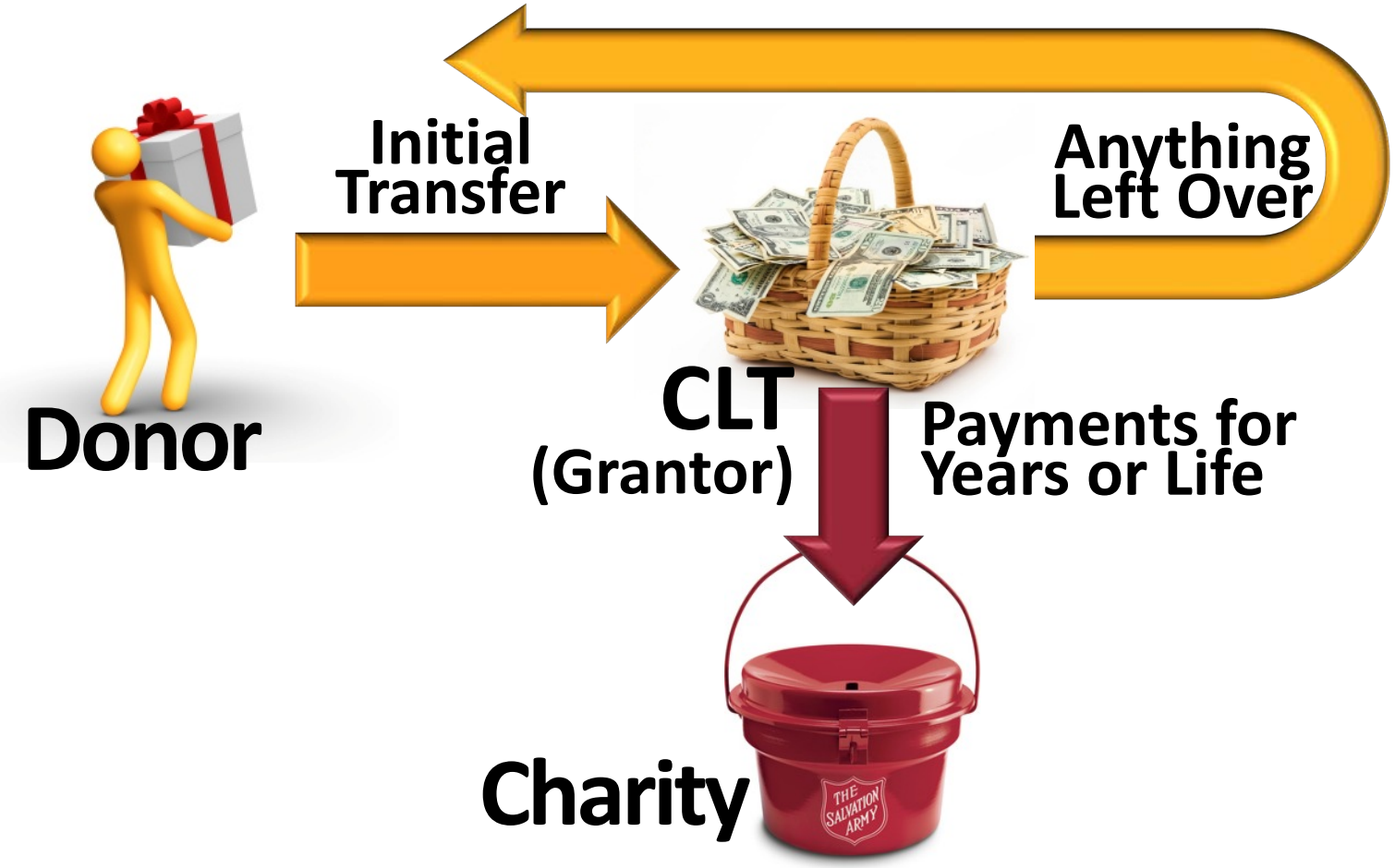
If the charitable gift *(or bequest)* was already planned, the zeroed-out CLAT *(or zeroed-out testamentary CLAT)* provides a no cost chance at tax-free transfers to family

Non-Grantor CLT pays income taxes but deducts charitable distributions usually without income limitations



Grantor CLT

Donor immediately deducts present value of all future projected payments to charity



Funding $10,000/year gifts through a 20-year grantor CLAT (returning remainder to donor) creates an immediate deduction of

- **$191,840 at 0.4%** §7520 rate
- **$98,181 at 8%** §7520 rate

See iclat.net

Please connect with me on LinkedIn for more slides and videos!

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