

**GIANT, IMPORTANT DISCLAIMER: WE AREN'T GIVING LEGAL, TAX OR FINANCIAL ADVICE. PLEASE SEEK YOUR OWN COUNSEL FOR ANY DONATIONS. MANY OF THESE QUESTIONS ARE OPEN TO SOME INTERPRETATION, ARE GENERAL IN NATURE OR ARE UNIQUE TO A PARTICULAR JURISDICTION. ASSUME ALL ANSWERS ARE WRONG UNTIL YOU/YOUR DONOR CONFIRMS WITH HER/HIS ADVISOR.**

**Q & A from “Shifting Gears: Rising Inflation and Interest Rates Impact on Charitable Planning” Webinar, July 2022**

<p><b>If a charity refers a donor with a non-cash gift to benefit the charity to the Dechomai Foundation, is there a split benefit shared between the charity and Dechomai Foundation?</b></p>	<p>Dechomai does take a fee (technically an internal grant from the donor's Dechomai DAF), but that fee has historically been in the 1.6-1.8% range. The remainder is available for grant.</p>
<p><b>Want to be clear...does the shift in the 7520 rate in the concrete example you shared mean that CGAs (charitable gift annuities) will be more appealing to donors? If so, is it because their tax deduction improves or because their payment goes up? Or something else? Thanks.</b></p>	<p>As the 7520 rate rises, the present value of a fixed annuity falls relative to the present value of the residuum to the issuing charity, meaning that the income tax deduction increases.</p> <p>At the same time, a larger portion of each annuity payment is allocated to ordinary income, so there is a tradeoff to be considered.</p> <p>The new ACGA recommended rates, which became effective July 01, will assign more value to the annuity, slightly reducing the present value of the residuum and therefore the deduction. But of course those rates are not mandatory.</p> <p>The updating of the IRS actuarial tables will also assign more value to a life income interest, and these will become mandatory when the proposed regulation is finalized.</p>
<p><b>In terms of inflation are PIFs with CPI kicker more attractive during the inflation challenge because the individual can be younger than most CGA philanthropic partners?</b></p>	<p>Not certain what is meant here by a "CPI kicker." Units in a pooled income fund participate pro rata in net ordinary income of the fund. While some funds may include realized short term gains in ordinary income, there is no direct mechanism for adjusting the payout to reflect external indices.</p> <p>That said, it is certainly the case that because there is no requirement that the present value of the remainder to the charity that establishes and/or maintains the fund be at least x percent, the vehicle can work for much younger participants.</p>

<p><b>Given the possibility cash donations may be impacted, and the cooling of real estate as well as donations of securities, what would your recommendations be for talking with donors?</b></p>	<p>It is of course always necessary to listen to the donor's concerns and reflect these back to them. Even as markets fall, noncash assets may include unrealized gains, and the deduction for a contribution of noncash assets will still offset ordinary income. Some donors who are repositioning to fixed returns (corporate bonds, etc.) may be harvesting short term gains as they move out of equities.</p>
<p><b>Sometimes in tough markets real estate gifts that produce charitable income tax deductions serve as a positive source for philanthropic partners especially if the donor covers the holding costs the holding cost creates additional deductions.</b></p>	<p>Yes, real estate can be an easier asset for a donor to part with in some cases. It may be tougher for the charity to manage and sell, but a smaller cash contribution normally goes a long way to cover holding costs.</p>
<p><b>What does the rate card look like on appraisal services? Especially for art. Recently, we have had donors offering us art collections, and are stuck on what to do. Seems like it would be a labor-intensive process for an unknown ROI.</b></p>	<p>Generally, \$1,000-5,000, but highly dependent on object type, number of items, provenance, etc.</p>
<p><b>BTW, not seeing a difference in the projected life expectancy when using the current life expectancy table and proposed tables for a CRUT for a couple aged 74 and 76 (20 years in both cases). There is, of course, a higher deduction when using the current table. Where are you seeing a difference in projecting when the charity will receive using the proposed table for a CRUT created for a couple for life which is helpful for program projections?</b></p>	<p>The proposed actuarial tables, which are based on census date from 2010, do show noticeably longer life expectancies, and these will allocate more value to life income interests.</p> <p>Not sure what results you are seeing, but to address the specific example, a five pct unitrust payable over the lives of two individuals aged 74 and 76 would yield a deduction of 48.677 pct under the existing actuarial tables and 46.185 pct under the proposed tables, i.e., the newer tables will allocate more value to the life interests.</p> <p>(The quoted figures assume an annual payout, so that we are not distracted by an adjustment factor that would vary with the 7520 rate.)</p> <p>If you are limiting this to a 20-year term, this will slightly increase the present value of the remainder, as there is some possibility one or both beneficiaries might outlive the term, and the difference between the results under the existing and proposed tables might be closer.</p>

<p><b>The % of how it's allocated matters because that is how it is taxed as income?</b></p>	<p>This question has to do with the "tradeoff" mentioned above in the discussion of gift annuities. While a rising 7520 rate will allocate more value to the deductible residuum to the issuing charity, it will also allocate a larger portion of each annuity payment to ordinary income and a smaller portion to recovery of investment in the contract.</p>
<p><b>The other issue with a non-grantor CLAT is beating the 7520 rate if market returns are lower and you're still paying fees (e.g., 1%). So therefore, less possible to move the increase in value of assets to the next generation tax free.</b></p>	<p>This is certainly true, and something the planner must keep in mind.</p> <p>To achieve the "same" results with a CLAT as the 7520 rate rises, you need to set either a longer term or a higher payout, and the software will not always incorporate an assumption with respect to the actual expense of operating the trust.</p>