Minot State University

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Board of Regents

Sept. 22, 2017

"FOUNDATION FOCUS"

Minot State University

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Commonly asked charitable giving questions

09/22/17

10. What is a life income gift?

Answer:

A life income gift is a gift to MSU that pays income to you or a loved one for life (or a period of years). At the time the gift is made, the donor receives a charitable income tax deduction for a portion of the gift's value. The two most common types of life income gifts are:

1. A charitable gift annuity (CGA)

2. A charitable remainder unitrust (CRUT).

A CGA provides a fixed payment for life, while a CRUT offers a variable payment.

9. We are considering a gift of our personal residence to the Minot State University Foundation. The mortgage has long been retired, and there is considerable asset appreciation, over and above the home's original purchase price (plus the cost of improvements). What can you tell us about this type of gift?

Answer: Option 1:

A gift of your personal residence would appear to be mutually advantageous. There are a couple of ways you could go. The first would be a direct donation to the Foundation, which would entitle you to take a full fair market value tax deduction for the gift. Naturally, you would need to have made other living arrangements when contemplating this approach.

9. We are considering a gift of our personal residence to the Minot State University Foundation. The mortgage has long been retired, and there is considerable asset appreciation, over and above the home's original purchase price (plus the cost of improvements). What can you tell us about this type of gift?

Answer: Option 2:

Consider a Charitable Gift Annuity (CGA) using your home as the funding mechanism. Under this arrangement, you could reserve a life estate in the property, allowing you to continue to live in the residence for your lifetimes. You would continue to be responsible for the payment of taxes and insurance, and periodic maintenance. Upon the death of the survivor of you, the property would pass to the Foundation. In the meantime, you could receive lifetime payments from the annuity, which in turn is a function of your life expectancies. This is a classic way to "give it away, and still keep it," and certainly merits further exploration in your instance.

8. My tax consultant has advised me that I am in a good position to take advantage of the ND state income tax credit, available for gifts to qualifying endowment type funds, such as the MSU Foundation. Just exactly how does that work?

Answer:

Some specific examples may be the best way to illustrate the advantages of the ND state income tax credit. See below:

Gift Amount	$5,000	$10,000	$25,000
Less:			
ND tax credit (40%)	- $2,000	- $4,000	-$10,000
Federal tax deduction (28% federal tax bracket)	- $1,400	- $2,800	-$7,000
Actual net cost of gift	**$1,600**	**$3,200**	**$8,000**

7. My wife and I established an educational scholarship last year, and were able to take advantage of state matching funds pursuant to the ND Challenge Fund for Higher Education. What is the status of this legislation for the current biennium?

Answer:

The ND Legislative Assembly did restore a very modest amount of funding for the Challenge Fund for the 2017-2019 biennium. Minot State's share of those dollars amounts to $200,000, meaning that to "max out" our share, we would need to raise a total of $400,000 of new gifts or private funding. While the total amount set aside for the program is dramatically lower than last time around, it nevertheless is something.

We are hopeful that additional dollars will be available in the future, assuming eventual improvement in the state's underlying economy.

6. I own a modest life insurance policy that will pay a nominal death benefit upon my demise of roughly $20,000. I have sufficient liquidity in my estate to pay funeral expenses and costs of administration. How would I go about leaving the policy to the MSU Development Foundation?

Answer:

Remember that life insurance benefits represent a contractual obligation, and are consequently controlled by the policy's beneficiary designation form and *not* the donor's Last Will & Testament. Therefore, to leave the policy to the MSU Foundation, you would simply need to obtain a change of beneficiary form from your insurance agent, and name the MSU Foundation as the primary beneficiary on the policy. Once the beneficiary change has been completed, it would be a good idea to provide a copy of the recorded change form to the Advancement Office.

5. I have a traditional IRA and will be 70 ½ years of age on Oct. 1, 2017. The amount of my first Required Minimum Distribution (RMD) is $7,500. I read somewhere that if I transfer the RMD amount directly to the MSU Development Foundation, I can avoid payment of income taxes on that distribution. True?

Answer:

Absolutely true, as a result of federal legislation made permanent in late 2015 that provides for IRA charitable rollovers. By having the amount transferred directly from the donor's IRA to the Foundation, there is a complete avoidance of federal income taxation. Additionally, there is a corresponding reduction in the donor's estate for federal estate tax purposes as well.

4. Most of my investable assets are held in an IRA, from which I am receiving annual distributions. I feel I will need these funds for current living expenses, but would like to leave a portion of any remaining balance upon my demise to Minot State. Can I provide for that type of gift in my will?

Answer:

IRA balances are similar to life insurance proceeds, in that their disposition is controlled by the beneficiary form on file for the account, and *not* one's Last Will & Testament. Accordingly, if you would like to leave a portion of your IRA funds to charity, you would need to update your beneficiary form to reflect your current wishes. Typically, you would designate the charity – as a primary beneficiary – to receive a percentage (10%, 25%, etc.) of the account. Needless to say, any IRA funds left to a qualified charitable organization would pass free of any income or estate tax liability.

3. I own common stock with a very high market value relative to the original acquisition cost of the shares. I would like to make a gift to the MSU Development Foundation, but if I sell the stock, I would incur a huge capital gains tax liability. I was told I could avoid that outcome if I arranged for a gift of the shares. How would I go about accomplishing that?

Answer:

Assuming the shares are held in some type of brokerage arrangement, simply notify the firm of your gift intention and furnish them with the asset delivery instructions (available upon request) for the Foundation's custodian. Delivery is completed once the shares have been received in the Foundation's safekeeping account. You will then be entitled to the full charitable deduction based on the average of the high and low price quotations for the shares on the day of delivery.

2. My husband passed away a few years ago and left his IRA to his three adult children from a prior marriage, so there are no IRA assets at my disposal. Nevertheless, I am quite comfortable financially, and would like to leave some money to the MSU Foundation upon my demise. What might be the best way to do that?

Answer:

In your particular case, it appears that a standard bequest pursuant to your Last Will & Testament would be the best way to go. Your will might include language similar to what appears below:

"I hereby give, devise and bequeath the sum of $______ to the Minot State University Development Foundation, 500 University Ave. W, Minot, ND 58707."

Please be advised that a testamentary bequest can also include a specific asset, a percentage of the estate or the residue (remainder) of the estate.

(Note: If the funds are to be earmarked for a specific department or university program, you could include that information in your bequest as well).

1. If I write and mail a check to the MSU Development Foundation on Dec. 31, 2017, but the check is not received until Jan. 3, 2018, for example, am I entitled to claim the amount as a charitable income tax deduction for 2017?

Answer:

With regard to gifts of cash (i.e. checks), the key factor is delivery and not receipt. Therefore, so long as the gift is postmarked on or before Dec. 31, the donor can claim a charitable deduction for the gift for the year in which the check was written.

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Questions?