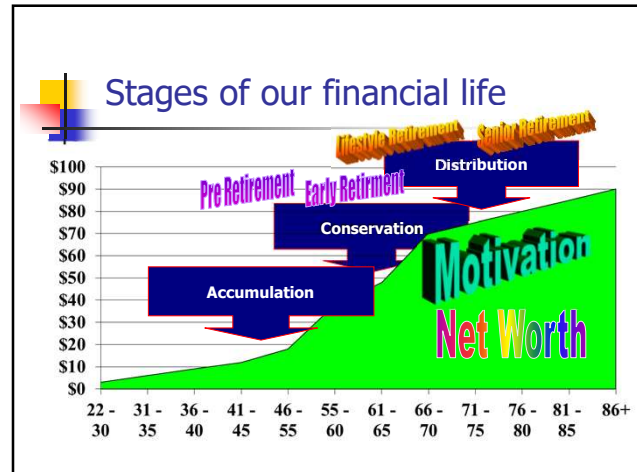


***Finding Best Prospects***  
***Poor Man's Charitable Remainder Trust***

**McLeod Professional Advisor Council**  
**November, 2021**

James E. Connell FAHP, CSA  
*Connell & Associates*  
Charitable Estate and Gift Planning Specialists  
[www.connellandassoc.com](http://www.connellandassoc.com)

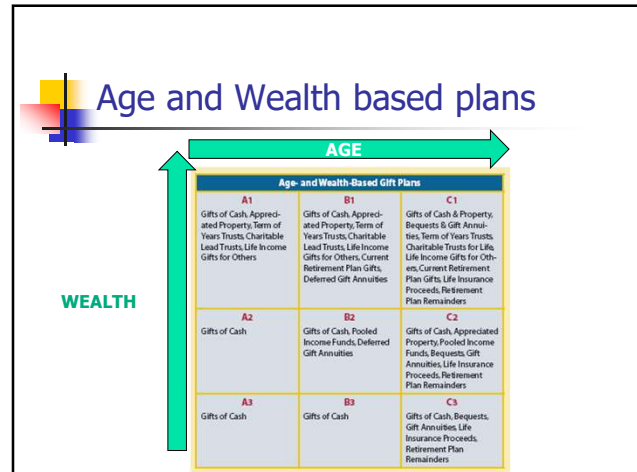
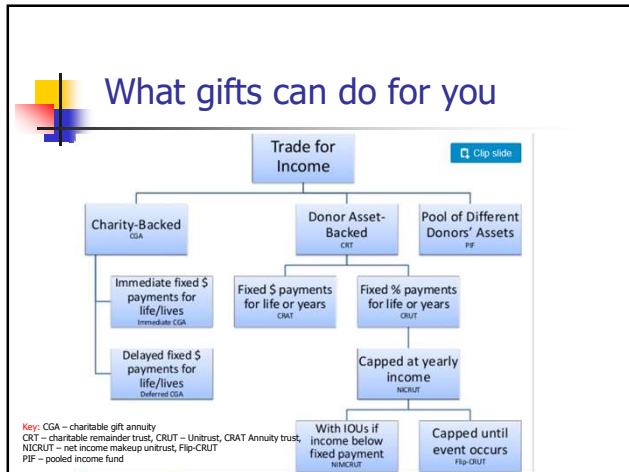
for PDF of presentation  
[www.connellandassoc.com/articles](http://www.connellandassoc.com/articles)

**Three kinds of gifts**

OUTRIGHT GIFTS	ESTATE GIFTS	LIFE INCOME GIFTS
<ul style="list-style-type: none"> <li>• Immediate Gift</li> <li>• QCD-IRA</li> <li>• Bargain Sale</li> <li>• Installment Bargain Sale</li> <li>• Retained Life Estate</li> </ul>	<ul style="list-style-type: none"> <li>• Testamentary Will Bequest</li> <li>• Testamentary Trust Bequest</li> <li>• Retained Life Estate</li> </ul>	<ul style="list-style-type: none"> <li>• Gift Annuity</li> <li>• Charitable Trusts</li> <li>• Pooled Life Income Fund</li> <li>• US Legacy Trust</li> <li>• Alliance Community Foundation</li> </ul>





### Philanthropy has many faces

- Each segment represents a characteristic and distinctive way a donor group approaches philanthropy
- A set of typical attitudes and beliefs
- A range of considerations
- A process of evaluation
- A style of involvement

**“One set of motivations tend to dominate people's decisions”**

Source: Prince & File study

### Philanthropy has many faces

- Communitarian 26%** ★ ★ ★
- Devout 21%**
- Investors 15%** ★ ★ ★ ★ ★
- Socialites 11%**
- Repayors 10%** ★ ★ ★ ★
- Altruists 9%**
- Dynasts 8%** ★ ★

Source: Prince & File study

## THE COMMUNITARIANS

- *"DOING GOOD MAKES SENSE"*
- Typically local business owners who find that service on boards and committees of local nonprofits can be good for business because of the relationships that often develop

*Thank you*



## THE DEVOUT

- *"DOING GOOD IS GOD'S WILL"*
- Motivated to support non-profits for religious reasons
- Almost always members of a local church

*Thank you*



## THE INVESTOR

- *"DOING GOOD IS GOOD BUSINESS"*
- Affluent individual donors who give with one eye on the nonprofit cause and one eye on personal tax and estate consequences

*Thank you*



## THE SOCIALITE

- *"DOING GOOD IS FUN"*
- Members of local social networks who select nonprofit for support and conduct fund raising activities as a way to help make a better world

*Thank you*



## THE REPAYER

- *"DOING GOOD IN RETURN"*
- Constituents first and donors second
- Personally benefited from some institution often a school or medical center, and now supports that institution from a feeling of loyalty or obligation

*Thank you*



## THE ALTRUIST

- *"DOING GOOD FEELS RIGHT"*
- The selfless donor who gives out of generosity and empathy to urgent causes and who modestly *"wishes to remain anonymous."*
- Giving is a moral imperative that helps them grow as individuals

*Thank you*



## THE DYNAST

- *"DOING GOOD IS A FAMILY TRADITION"*
- Typically inherit their wealth. Philanthropic motivation stems from their socialization.
- Giving is something their family has always stood for and they believe it is expected
- Younger dynasty often seek out different causes than their parents

*Thank you*



## Philanthropy has many faces

- **Communitarian** 26% ★ ★ ★
- **Devout** 21% ★ ★ ★ ★ ★
- **Investors** 15% ★ ★ ★ ★ ★
- **Socialites** 11% ★ ★ ★ ★ ★
- **Repayors** 10% ★ ★ ★ ★ ★
- **Altruists** 9% ★ ★ ★ ★ ★
- **Dynasts** 8% ★ ★

Source: Prince & Fie study

## Indicator grid for building a list of prospects

1. **Linkage** – who is the logical connection
2. **Interest** – program or project they are fond of
3. **Age** – logic tells us to work with the oldest first
4. **Signals** – verbal, mail, personal indications of an ownership connection
5. **Values** – personal and family concerns about their health, finances and welfare
6. **Ability** – indicated or hidden net worth, personal social capital



## Personal philanthropy

### Strategies in play

- Outright gifts
- QCDs – *Etrade, TRowe Price, TIAA-CREF*
- Will and trusts
- Donor advised fund – *TRowe Price*
- Charitable gift annuities - *NPOs*
- Legacy income pooled income trust – *Eaton Vance*
- 529 plans for grandchildren - *Vanguard*
- Charitable endowment using variable annuity funded with QCD – *Jackson National Life & Annuity*

## Personal philanthropy

### Strategies in play

- Outright gifts & QCDs
  - Duke Athletics (2)
  - Habitat
  - LaSalle University
  - Sandhills Women's Exchange
  - CHKD
  - Moore Free Clinic (2)
  - Lani Cat Sanctuary
  - Misc. events

## Personal philanthropy - DAF

### The James and Mary Connell Fund

Recommend a Grant Disbursement

Plan a Contribution

\$213,981.13

ACCOUNT VALUE

PAID GRANT DISBURSEMENTS

ID	PAID	RECIPIENT	AMOUNT	TYPE	
2375411	7/22/2020	MIRA Foundation USA, Inc.	\$2,500.00	Grant	<a href="#">REPEAT</a>
2333097	5/13/2020	Moore Free and Charitable Clinic	\$10,000.00	Grant	<a href="#">REPEAT</a>
2333266	5/13/2020	Food Bank of Central and Eastern NC	\$1,000.00	Grant	<a href="#">REPEAT</a>
2026229	4/9/2019	Friends of Weymouth, Inc.	\$10,000.00	Grant	<a href="#">REPEAT</a>
826121	7/28/2016	MIRA Foundation USA, Inc.	\$500.00	Grant	<a href="#">REPEAT</a>
			Total = \$24,000.00		



## Personal philanthropy

- Life income agreements
  - Immediate CGA - Jim
    - Duke
  - Deferred FCGAs – Jim
    - Dickinson (3) – payment status
    - Duke (1) – Flexible deferred
    - Habitat (1) – gifted in 2019 & 2020
  - Deferred FCGAs – Mary
    - Duke (2)
    - LaSalle (1) CGAs total \$124,384.11
  - Pooled income fund – joint
    - US Legacy Income Trust 1

## Personal philanthropy

The U.S. Legacy Income Trusts® (Legacy Income Trusts) are next-generation charitable planned-giving instruments established by the U.S. Charitable Gift Trust® (Gift Trust), a tax-exempt public charity offering donor-advised funds. The Legacy Income Trusts and the Gift Trust are sponsored by Eaton Vance Management (Eaton Vance), a longtime leader in wealth management solutions. Eaton Vance is part of Morgan Stanley Investment Management, the asset management division of Morgan Stanley.

The Legacy Income Trusts provide Donors contributing cash and/or acceptable securities with the opportunity to:

- Avoid recognition of capital gains on contributions of appreciated assets
- Receive a federal income tax deduction based on the charitable remainder portion of the contribution value
- Provide monthly distributions of tax-advantaged income for life to up to ten individual income beneficiaries designated by the Donor
- Make grants to qualified charitable organizations selected by the Donor or his or her designee following the death of the last-surviving of the Donor's individual income beneficiaries

## Personal philanthropy

<https://www.uscharitablegifttrust.org/>

TRUST ACCOUNT SUMMARY		BENEFICIARIES	
<b>Trust Account Summary</b> DATE ESTABLISHED: 2/15/2001 CURRENT YEAR CONTRIBUTIONS: \$109,237.62 <a href="#">View All</a> CURRENT YEAR DISTRIBUTIONS: \$1,894.22 <a href="#">View All</a>		<b>Income Beneficiary</b> • Mrs. Mary E. Connell 100% <b>Charitable Beneficiary</b> • Duke University 50% • LaSalle University 50%	

## Personal philanthropy

CONTRIBUTIONS

Start Date: 10/29/2020 End Date: 10/29/2021 Apply Dates Export to Excel (2)

ID	DATE	INVESTED	NAME	QUANTITY	VALUE	STATUS
1106260	10/18/2021	10/25/2021	Roku Inc	100.00	\$33,386.43	Accepted and Invested
1094901	6/30/2021	7/8/2021	Microsoft Corp	100.00	\$27,048.20	Accepted and Invested
1073535	2/13/2021	2/22/2021	Microsoft Corp	200.00	\$48,803.00	Accepted and Invested

Microsoft dividend rate = <1.0% Roku dividend rate = 0%

Security gifts require IRS form 8283 filing

## 2021 Proposed tax changes

MOST LIKELY

<p><b>Increase Top Individual Income Tax Rate to 39.6%</b></p> <ul style="list-style-type: none"> <li>Joint filers with \$450,000+ taxable income</li> <li>Single filers with \$400,000+ taxable income</li> <li>Estates and trusts with \$12,500+ in taxable income</li> <li>Effective after December 31, 2021</li> </ul>	<p><b>Increase Capital Gains Tax Rate to 25%</b></p> <ul style="list-style-type: none"> <li>Increase the capital gains rate to 25% from 20%</li> <li>Effective for sales as of September 13, 2021, unless binding contract as of September 13 and sale occurs by year-end</li> </ul>
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**Corporate and Entity Taxes**

- Impose graduated increase to corporate income tax rate, phasing out for corporations over \$10M
- Remove valuation discounts for non-business assets
- Limit maximum allowable individual deduction for qualified business income
- Allow S-corps to reorganize as partnerships tax-free so long as S-corp was formed prior to May 13, 1996 and reorganizes by December 31, 2023

## 2021 Proposed tax changes

LIKELY IN SOME FORM

<p><b>Reduce Gift and Estate Tax Exemption to \$5 Million</b></p> <ul style="list-style-type: none"> <li>Exclusion applies to each individual and is indexed to inflation</li> <li>To start January 1, 2022</li> <li>Tax rate increase not proposed</li> </ul>	<p><b>Grantor Trust Limitations</b></p> <ul style="list-style-type: none"> <li>Significantly limit the use of grantor trusts in several estate planning strategies</li> <li>Effective for new trusts and contributions to existing trusts on or after date of enactment</li> </ul>
<p><b>Surcharge on Individuals, Trusts &amp; Estates</b></p> <p>Impose a tax equal to 3% of a taxpayer's modified adjusted gross income where income is \$5,000,000+ and for estates and trusts with income \$100,000+</p>	<p><b>IRA Restrictions</b></p> <ul style="list-style-type: none"> <li>Prohibit individuals from making additional contributions to IRAs if the total value exceeds \$10 million</li> <li>If IRA exceeds \$10 million, at least 50% distributions are required</li> <li>End "backdoor Roth" conversion strategy</li> </ul>

## 2021 Proposed tax changes

LEAST LIKELY

<p><b>Increase Carried Interest Holding Period</b></p> <ul style="list-style-type: none"> <li>Increase the holding period from 3 years to 5 years for carried interest to be taxed at capital gains rates</li> <li>Effective after December 31, 2021</li> </ul>	<p><b>Modify State and Local Tax (SALT) Deduction</b></p> <p>Undo or modify the \$10,000 cap on the federal deduction for state and local taxes</p> <p><i>Under discussion, but not currently proposed by House</i></p>
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<p><b>Eliminate Basis Step-Up at Death</b></p> <p>Eliminate step-up basis – the increase of an asset's basis to the property's fair market value at the date of the previous owner's death – for gains in excess of \$1 million (\$2.5 million per couple when combined with existing real estate exemptions)</p>	<p><b>Reinstate Itemized Deduction, with Limitations</b></p> <ul style="list-style-type: none"> <li>Limit benefits of itemized deductions to 28% rate</li> <li>Reinstate Pease limitations for taxpayers with income greater than \$400,000</li> </ul>	<p><b>Limit 1031 Exchanges</b></p> <p>Eliminate the ability to defer capital gains tax on real estate exchanges for gains above \$100,000</p>
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