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Customizing for the Best Fit: Blended Gifts

"Were you born in a barn?" This reproach was traditionally leveled at someone who left a door or a window open or was guilty of some other inappropriate or negligent behavior. Thanks to the rise of barndominiums, however, this saying may soon lose some of its clout. Barndominiums are a social media sensation with those interested in custom fixer-uppers. This residential, custom-home concept combines the structure of a barn with the design features of a modern home or condominium.

The tremendous space offered by barndominiums provides the framework for endless modifications that would not otherwise be possible in a traditional home:

- A 20-foot-long steel kitchen island with full plumbing? No problem.
- A 2,500-foot workshop off the family room to store all the owner's 4-wheel and 2-wheel toys? Done.
- A 25-foot long by 9-foot high sliding glass entrance door that can be protected behind a roll-down steel door? Got it.
- An arena where show horses can run? A barndominum has room for that.
- A simple country house on a very small budget? There is a barndominium for that too!

At least one architectural website claims the versatility of a barndominium makes this structure a good choice for almost anyone.[1] Donors looking for similar scope, versatility, and customization may turn to blended gifts—a giving technique that lets donors make substantial gifts that are tailored to their individual needs, circumstances, and goals. In this issue of *The Good Advisor*, we look at the basic components of blended gifts and how this giving method can broaden a donor's philanthropic options.

The Appeal of a Blended Gift

A blended gift is not a type of charitable gift, but rather a technique that combines two or more types of gifts that together uniquely address the donor's financial situation and charitable goals. Finding this "perfect combination" lets donors make a more substantial gift than might otherwise have been possible, which benefits both the donor and the charity. And while there are no limits on possible gift combinations, most blended gifts pair an immediate donation with a future contribution.

With such tremendous flexibility, a donor at almost any age can choose gifts that work best within their own specific parameters—available assets, timing needs, tax considerations, and philanthropic goals. For example, a young, unmarried donor might make an immediate cash gift combined with a testamentary gift. A married donor with family commitments might combine an immediate gift of appreciated securities with a charitable remainder trust. A donor heading into retirement might pair a charitable gift annuity with a testamentary gift.

The first step for any donor seeking to design a blended gift is to understand the available options. Let's review the most common giving tools along with the benefits they can provide to donors structuring a blended gift.

Immediate Gifts

Many donors want to make an immediate impact on the charities they value and support. This is the most common and straightforward part of a blended gift. For such gifts, deductibility is a consideration for donors who itemize. While most donors understand the charitable income tax deduction, some may need a reminder that they will need a record of the gift in order to take the deduction—and more substantial gifts require even more detailed recordkeeping.

Cash

The most common immediate gift is a simple cash donation to charity. For a cash donation, the donor must maintain a record of the contribution, such as a cancelled check, a receipt, a letter from the charity (showing the charity's name, the date, and the amount of the contribution), or some other reliable written record documenting the same information.[2]

Property

As the value of the donated property increases, so do the requirements for documenting the donation:

- Over $500—the donor must include a description of the donated property with the tax return.[3]
- $5,000 or more—the donor must obtain a qualified appraisal and include an appraisal summary with the tax return. Additional records must be maintained for donations of non-publicly traded stock, certain publicly traded securities, or contributions by a C corporation.[4] The taxpayer must also maintain the general substantiation records required by Treas. Reg. §1.170A-13(b)(2)(ii).
- Over $500,000—the donor must obtain a qualified appraisal and attach a copy of the appraisal (not just an appraisal summary) to the income tax return for that year.[5]

IRA Distributions

Qualified charitable distributions (QCDs) allow donors over the age of 70½ to make a gift up to $100,000 (aggregate annual amount) from an IRA directly to a qualified charity. This immediate gift does not qualify for a charitable income tax deduction, but the distribution is free of income tax and it counts toward the donor's required minimum distribution (when one is due).

Deferred Gifts

Some donors can benefit greatly by including a deferred gift in a blended gift combination.

A charitable gift annuity (CGA) is a contractual agreement between the donor and the charity. In return for the donor's gift, the charity agrees to pay a fixed amount periodically to the person designated by the donor. This is useful for donors who wish to create a steady stream of income. At the end of the payment period, the remainder of the gift goes to the charity.

A charitable remainder trust (CRT) is an irrevocable trust. The donor contributes property to the CRT, the trust makes annual distributions to the donor or other named beneficiaries for a specified period, and when the trust term ends, the trustee pays out everything that remains in the trust to a qualified charity. This is also useful for donors who want to create an income stream—especially when their charity of choice doesn't offer charitable gift annuities.

A charitable lead trust (CLT) is also an irrevocable trust. However, after the donor contributes property to fund a CLT, the trust makes annual distributions to the named charity for a specified period. In general, the trust may not make payments other than to the charity until the trust terminates, at which point the trustee passes the remaining assets back to the grantor or other named beneficiaries (often the grantor's children or grandchildren).[6] This is a useful way to give when a donor wants his or her heirs to ultimately retain the assets.

Future Gifts

A blended gift often includes a testamentary gift in a will or a beneficiary designation of a retirement account, life insurance policy, or certain other assets.

Testamentary Gifts

Many people write a will as a fundamental part of estate planning—to dispose of their estate at death, direct their final affairs, or name a guardian for minor children. A will also makes it easy to direct a charitable bequest from the estate.

There are, of course, three types of bequests:

- A specific bequest is the gift of a specific asset to a particular beneficiary—for example, a donor who gives a particular work of art to a museum.
- A demonstrative bequest is one that identifies a specific amount of money from a particular source.
- A general bequest is a gift from the general funds of the estate after all specific and demonstrative bequests have been made. This type of bequest can be a specific dollar amount or a specified percentage of the remaining estate.

When a donor makes a charitable bequest, the gift can be a specific dollar amount, a particular asset, a stated percentage of the available estate, or even the estate residue (what is left after all other payments and bequests have been made).

When making a testamentary gift, the donor and the donor's legal counsel should make certain to identify the charitable recipient correctly and clearly, using the charity's correct legal name and address. Clients who believe that "close enough is good enough" can create significant problems, possibly to the extent that the charity is not able to receive the bequest.

Donors and their estates obviously want to benefit from a tax deduction for the charitable gift whenever possible. A bequest made to a qualified charity is deductible by the estate for estate tax purposes if it meets the requirements set out in the Internal Revenue Code (IRC).[7] To qualify for the estate tax charitable deduction under IRC §2055, a bequest generally must be:

- Included in the decedent's gross estate,
- Transferred by the decedent by will, and
- Made to a qualified charitable organization as defined under estate tax rules.[8]

Of course, the term "qualified charitable organization" generally means any domestic or foreign "corporation or association organized and operated exclusively for religious, charitable, scientific, literary, or educational purposes" that will use the asset exclusively for charitable purposes.[9]

Beneficiary Designations

One of the most efficient methods of adding a future gift to a blended gift is to designate a charity as the beneficiary of retirement assets or an insurance policy. This is an easy, straightforward, revocable gift. The donor fills out the beneficiary form and names the charity as beneficiary. At the donor's death, the charity receives the assets or proceeds directly since the money does not pass through probate.

The donor has the flexibility to name the charity as the primary beneficiary (to receive the funds first) or the secondary beneficiary (to receive the funds only if the primary beneficiary cannot). The donor can also choose to pass a percentage to the charity and a percentage to heirs.

There is an additional tax benefit to gifting retirement assets to charity and passing other assets to heirs. Neither the donor's estate nor the heirs will pay tax on retirement assets—the money will pass in full directly to the charity. In contrast, retirement assets left to heirs are considered income in respect of a decedent (IRD) and are taxable both in the estate and to the heirs who receive them.

EXAMPLE: Carol, age 75, is looking for the best way to support her favorite charity. She wants to make an immediate impact, but worries that making a large gift now might cause her financial problems down the road. Since she's comfortable enough not to need her required minimum distribution (RMD) from her IRA, she decides to use a qualified charitable distribution (QCD) to donate directly from her IRA to the charity. If she's able, she can do this in future years, too. However, to make the larger gift that she wants to make, she also chooses to name the charity as the sole beneficiary of her IRA—a gift that she can change in the future if the need arises. Carol's hope, though, is that at her death, all funds remaining in the IRA will go directly to the charity, undiminished by taxes.

Finding the Right Fit

The rise of online shopping created a corresponding expansion in the software used to help buyers find the best product to fit their needs. Many websites now go to great lengths to help shoppers find the most appropriate merchandise for their personal situation. While we've long been able to search by size or color or price, many searches go even deeper. For example, a search for pants might include information about size on the model shown, seam length, material choices, style, and cut.

As consumers, we have begun to expect this level of customization, so it makes sense that charities would likewise go to great lengths to help donors find the right charitable gifts to fit their personal circumstances and goals. Blended gifts fill this need for customization by offering all the alternatives available in the charitable giving toolbox, letting donors create just the right combination of gifts for the maximum impact and benefit.

This approach shows that charities understand this important concept: While everyone puts their pants on one leg at a time, not everyone wears the same pants.

ENDNOTES

1 "The Rise of Barndominiums and Why You Should Buy One," Architecture Lab, May 9, 2019. www.architecturelab.net/what-are-barndominiums/

2 Treas. Reg. §1.170A-13(a)(1).

3 IRC §170(f)(11)(B).

4 Treas. Reg. §1.170A-13(c)(2)(ii).

5 IRC §170(f)(11)(D).

6 Treas. Reg. §20.2055-2(e)(2)(vi)(a) and §20.2055-2(e)(2)(vii)(b).

7 IRC §2055(a)(2).

8 See IRC §2055(a), Reg. 20.2055-1(a).

9 Treas. Reg. §20.2055-1(a)(2). To help identify such organizations, the Internal Revenue Service maintains a non-exclusive informational listing of qualified charitable organizations in IRS Publication 78, Cumulative List of Organizations described in Section 170(c) of the Internal Revenue Code of 1986. The online version of Publication 78 can be found at: www.irs.gov/app/pub-78.

Access more information now!

An electronic copy of our companion booklet with more information on blended gifts is available in the Professional Advisor section of our webite at **www.catholicfoundation.com**. There, you will find more information about additional blended giving tools and scenarios. You can download this PDF and store it on your PC or tablet for easy access. It also links to additional online resources.

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