Pooled Income Fund Gifts: Planning Considerations

Many benefits are available to you and your family from participation in the Pooled Income Fund program of The First Church of Christ, Scientist.

- You can make an important gift to assist our core activities, and receive current income.
- You can benefit from expert investment management, overseen by the Christian Science Trustees for Gifts and Endowments
- You can reduce your income tax, future estate taxes and probate expense
- You can convert appreciated securities to a lifetime stream of income without loss from capital gains taxes.

How Does the Pooled Income Fund Program Work?

The Christian Science Trustees for Gifts and Endowments administer three Pooled Income Funds on behalf of The First Church of Christ, Scientist:

- **The Growth-Oriented Fund** is designed to provide significant long-term growth of income and principal;
- **The Balanced Fund** is designed to produce moderate levels of current income;
- **The Income-Oriented Fund** is designed to generate high levels of current income, but a participant will probably experience little growth of income or principal over time.

Friends and benefactors contribute cash or stocks irrevocably to the Fund of their choice. Real estate is not accepted into a Fund. Each contributor retains an income interest for his or her life or the life of any beneficiary he or she may designate. Assets you contribute to the Fund are commingled and invested with similar gifts from our other friends and invested by a professional and skilled trustee. All the income is divided quarterly among the participants. Essentially what happens is that, in exchange for your gift, units of a Fund are allocated to you. Those units then determine how much of the Fund's net income you will receive each year.

For example, if your Fund produced $100,000 in income this year, and if a total of 10,000 units had been assigned to contributors, each unit would be worth $10 of the income. If you held 250 units, you or the income beneficiary you name would receive $2,500 (250 shares x $10/share). Upon the passing of the income beneficiary, your contribution to the Fund is used to further the Church's activities.

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How Much Income Can I Expect?

All of the net income earned by a Fund during the year is paid out to participants. All appreciation of a Fund's assets is kept in the Fund to produce additional income in future years. We cannot predict or guarantee any particular income, because the income each year will depend completely upon the investment experience of the trustee for that particular year. However, we will be happy to furnish you with the most recent rates of return of the various Funds. Just write or call our office.

The important points to keep in mind are these:

- Fund investments will be made by experienced and successful investment managers, overseen by The Christian Science Trustees for Gifts and Endowments.
- Investments will be aimed at obtaining income, growth of capital, or income plus capital growth.
- All income from dividends, interest and similar sources will be currently distributed.
- All contributions, including appreciation, will remain in the Fund until the income rights associated with that contribution have expired.

How Is Income Divided Among Participants?

The Pooled Income Funds operate in very much the same manner as the typical mutual fund. The assets of a Fund are valued periodically, and the number of outstanding units is divided into that value. The resulting figure is the per unit value for that period. That per unit value determines the number of units that will be awarded for a contribution made at that time.

This concept is best explained with an example. Let's assume that a Fund started with a $50,000 contribution from Mrs. A and that 500 shares are assigned to Mrs. A for her contribution. Assume a 2% growth in value so that at the beginning of Year 2, each unit has a value of $102. If Mr. B contributes $50,000 at that time, he will be given 490.2 units. At the beginning of Year 3, the value of the Fund, assuming the same 2% growth, will be $103,020. So each unit will be worth about $104.04. If Mrs. C contributes $50,000 at that time, she will receive 480.6 units.

The arrangement is completely fair and equitable – for each beneficiary would receive the income not only from his or her contribution, but also from the growth of that contribution. Assume now that the total income in Year 3 equaled $9,000. It would be divided among A, B and C according to the number of units each held. The result would be approximately:

	Units Held	Income Received
Mrs. A	500.0	$3,060
Mr. B	490.2	3,000
Mrs. C	480.6	2,940
	1,470.8	$9,000

How Much Will I Receive as an Income Tax Deduction?

The full present value of our remainder interest in the Pooled Fund is deductible in the year you make the gift. Depending on your tax bracket, you may be able to save several thousand dollars in current taxes. The amount of the income tax deduction allowable for a gift to a Pooled Income Fund is dependent upon the value of the cash or securities transferred to the Fund, the investment record of the Fund and the age of the income beneficiary. The following table demonstrates the approximate tax deduction allowed for a donor, assuming that the highest rate of return from the Fund during the previous three years was 5% (call us for the exact current rate and deduction information).

Gift of $10,000 in the Pooled Income Fund for the Life Of One Beneficiary

Age of Beneficiary	Charitable Deduction
85	$7,549
80	6,874
75	6,151
70	5,433
65	4,726
60	4,062
55	3,441
50	2,876

The table shows that a $10,000 gift to a Pooled Income Fund (assuming a 5% return to an individual at age 75) will create a tax deduction of $6,151. The donor would realize a tax savings of about $1,537 in a 25% tax bracket. Roughly 62% of the value of the gift is immediately deductible by the donor.

The maximum income tax charitable deduction allowed in the year a cash gift is made to a Fund is 50% of the donor's adjusted gross income. When the gift is appreciated assets, the maximum deduction is generally 30% of adjusted gross income. However, any amount not deductible in the year of the gift because of the percentage ceiling may be carried over for up to five years.

Note: Deduction amounts and income assumptions are for illustrative purposes only. Please call our office for recent income and deduction figures, including deductions where two persons will be receiving income payments.

Can I Arrange to Have the Income Paid to Others?

You may name someone other than yourself as beneficiary, and you can designate a beneficiary to receive income at your death, thus ensuring that there will be no probate interruption in income. We will be pleased to furnish you with the approximate tax deduction allowable for any type of income retention arrangement you may wish to make. You may, of course, also specify how the principal is to be used after the death of the income beneficiary or beneficiaries. Besides designating us as the beneficiary of the gift, if you so desire you can direct how the funds are to be used. We will be happy to discuss these restricted gifts with you and to help you plan a truly satisfying gift arrangement.

Are There Special Advantages to Contributing Appreciated Assets?

There are significant tax and financial advantages in giving appreciated securities to a Pooled Income Fund. Your tax deduction is computed on the value of the property at the time of the gift – regardless of the original cost of the property to you. There is no capital gains tax or net investment income tax on your paper profit when you give long-term appreciated securities to a Fund. Clearly, a contribution to one of our Pooled Income Funds can be an effective method of escaping from a locked-in position. You can deduct the full value of the property even though you've never been taxed on the appreciation in value.

Consider the case of Mr. Green, who wants to make a contribution to the Church without losing the income benefits of his property during life. Mr. Green had purchased stock in a large corporation some years ago for $10,000. Today this stock is worth $20,000. If he sells the stock, he will incur a capital gains tax on his $10,000 profit of $1,500 (tax rate of 15% on securities held more than 12 months). By donating the stock to one of our Pooled Income Funds, Mr. Green will not only save $1,500 in capital gains tax, he will also receive a charitable deduction. Assuming Mr. Green is 70 and the average rate of return of the Fund selected is 5%, his charitable deduction is $10,866 and his tax savings will be $3,586, assuming he is in a 33% top tax bracket. So Mr. Green can make his gift to us at an after-tax cost of only $14,914 ($20,000 - $1,500 - $3,586 = $14,914). If he receives $1,000 of income (5%), it's really being earned on $14,914, so his effective rate of return is more than 6.7%, thanks to his capital gains tax avoidance and deduction tax savings.

As Mr. Green's case shows, it can be extremely advantageous to donate appreciated property to our Pooled Income Fund program. Many donors have found our Pooled Income Fund Program to be an alternative to selling securities and then reinvesting for higher yield. Suppose Mrs. Black has shares of growth stock worth $50,000 with long-term capital gain of $30,000. The stocks pay dividends of only 1% a year ($500 annually). Mrs. Black wants to sell and reinvest for higher income. If she sells the stock, three unfortunate things will happen:

- She will pay capital gains tax equal to 15% of her profit (15% x $30,000 = $4,500);
- She may be subject to state income tax, depending on her place of residence;
- The sale may cause her to pay alternative minimum tax.

If she instead gives the stock to our Pooled Income Fund program, she avoids all the above tax misfortunes and receives a substantial charitable deduction in the bargain. Most important to Mrs. Black, she has contributed vital future support for The Mother Church.

In summary, by giving appreciated assets to a Fund you can:

- gain a tax deduction based on an untaxed profit;
- avoid capital gains tax (15% of your profit);
- reduce exposure to alternative minimum tax;
- receive income for life from your gift of assets the Church.

Additional Benefits from a Pooled Income Fund Gift

A wide variety of other possible benefits can result from a contribution to our Pooled Income Fund. Your own objectives and financial situation determine how valuable these benefits may be. Some possible benefits are:

- A contribution to a Fund can help relieve the burdensome details of investment management. The Fund carefully invests its assets, manages all accounting work and provides you with detailed reports. This can be especially advantageous during retirement years, or to your beneficiaries after your death.

- Income from a Fund can be diverted to a low-bracket taxpayer within your family – increasing the overall spendable income of the family.

- Because the amount of your annual payout fluctuates with the value of the Fund, you may also gain a practical hedge against continuing inflation.

- If you have low-interest certificates of deposit that are nearing maturity, converting CD funds into a Pooled Income Fund contribution upon maturity may provide more income than if you had "rolled over" your deposits into another CD.

- Your gift – if you designate yourself as sole income beneficiary – will also provide favorable estate tax treatment. By naming yourself as income beneficiary, the total value of your units in the Fund is included in your estate. However, your estate will not pay any tax on your gift – because the entire amount also qualifies as a charitable deduction for your estate.

- Because the Fund pools contributions from many of our friends, you can receive the advantages of a trust without having to invest a large sum of money.

- Most important, you receive the considerable personal satisfaction that comes from knowing you have made a significant contribution to support the Church.

Contributions Can Be Made by Will

Throughout this article we have emphasized lifetime transfers to a Pooled Income Fund. However, testamentary transfers, through a will or living trust, can also be a means of achieving your desire to make a gift to the Church, and take advantage of federal estate tax benefits. Through your will or living trust, you simply direct that payment of a specified amount be made to a Fund with income to be paid to a designated beneficiary for life. Units of the Fund will be assigned to the beneficiary, and income attributable to those units will be paid to the beneficiary for his or her lifetime. And because the present value of our interest at the time of your death is deductible for estate tax purposes, substantial estate tax savings are possible.

We will be pleased to provide full details of the tax and financial benefits of any lifetime or testamentary transfers you may desire to make to our Pooled Income Fund program, and assist you in determining which of our Pooled Income Funds best meets you need.

How to Proceed

If you are interested in providing for the Church through one of our Pooled Income Funds, please e-mail, call or write our office.

We are pleased to advise you:

1. Your income tax charitable deduction
2. Your capital gains tax savings, if securities are used for your gift
3. The recent payout history of our Pooled Income Funds

You will need to share with us:

1. The type of fund in which you are interested: The Growth Oriented Fund, The Balanced Fund, or the Income-Oriented Fund
2. The amount of cash and/or the market value of securities you might contribute
3. Your date of birth and/or that of any other income beneficiary
4. The date you purchased securities you plan to contribute and how much they cost

You can e-mail our office at philanthropy@csps.com, by phone at 1-800-288-7155, extension 3288, or write to us at the address below. We look forward to hearing from you.

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