Heart to Heart INTERNATIONAL

Planned Giving Glossary of Terms

A Vocabulary Guide

501(c)(3) — The section of the Internal Revenue Code that grants tax-exempt status to qualifying charitable organizations. Donors can generally deduct contributions only to organizations that hold 501(c)(3) status. Organizations should be prepared to provide their EIN and a confirmation of status to donors.

Adjusted Gross Income (AGI) — A measure of income used to calculate income tax liability and to determine limits on charitable deductions. Limitations on the amount of charitable donations a donor can deduct in any given tax year are often stated as a percentage of their AGI.

Appreciated Property — Appreciated property refers to assets (commonly publicly traded stock) that have increased in value since they were purchased, resulting in a capital gain that will be realized if the asset is sold. When a donor gives an appreciated, long-term asset in-kind (without selling it), they can generally deduct the full fair market value while avoiding the capital gains tax.

Beneficiary — A person or organization designated to receive assets from a will, trust, insurance policy, or retirement account. Organizations should encourage donors to confirm their beneficiary designations regularly, as these supersede will instructions for accounts with named beneficiaries.

Bequest — A gift made through a donor's will or living trust, directing that assets pass to a charitable organization upon death. Bequests are the most common form of planned gift and can be stated as a specific dollar amount, a percentage of the estate, or the residue remaining after other bequests are satisfied. [Also known as: Testamentary Gift]

Carryforward — When a charitable deduction exceeds the AGI-based limit in a given year, the unused portion may be carried forward and deducted over the following five tax years.

Capital Gains Tax — A tax on the profit from the sale of a capital asset (such as stock or real estate) that has increased in value. Once an asset has been held for over a year, it is considered long-term capital gain. Donors who contribute appreciated assets owned long-term directly to charity — rather than selling first — generally avoid capital gains tax entirely while receiving a deduction for the full fair market value.

Charitable Gift Annuity (CGA) — A contract between a donor and a charitable organization in which the donor makes an irrevocable gift and the organization agrees to pay the donor a fixed income stream for life. Rates are typically set by the American Council on Gift Annuities (ACGA).

Charitable Income Tax Deduction — A reduction in a donor's taxable income for qualifying gifts made to eligible organizations. Deductibility depends on the type of gift, the recipient organization's tax status, and the donor's adjusted gross income (AGI). Cash gifts to public charities are generally deductible up to 60% of AGI; appreciated property gifts up to 30% of AGI.

Charitable Trust — A blanket term for several different irrevocable trust structures in which a charity receives some portion of the trust assets. Various forms of charitable trust are sometimes used as estate planning tools. Also sometimes called **Split Interest Trusts.**

> **Charitable Lead Trust (CLT) —** A trust in which the charitable organization receives income payments for a specified term, after which the remaining assets pass to the donor's heirs.
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> **Charitable Remainder Trust (CRT) —** A trust that pays income to one or more beneficiaries (typically the donor or family members) for a term of years or for life, with the remaining assets passing to the charitable organization at the end of the trust term.

Donor Advised Fund (DAF) — A fund established at a sponsoring organization (such as a community foundation or financial institution) to which a donor makes irrevocable contributions, receives an immediate tax deduction, and from which grants are recommended to qualified charities over time. DAFs are frequently used as a tax planning tool.

Endowment — A pool of invested assets, the principal of which is maintained in perpetuity, with only a portion of the investment returns distributed for operations or programs each year. Planned gifts are a common source of endowment growth.

Estate — All of the assets and liabilities a person owns at death, including real property, financial accounts, personal property, and business interests.

Estate Tax — A federal (and sometimes state) tax on the transfer of a deceased person's taxable estate above the applicable exemption amount. Charitable bequests reduce the taxable estate and are fully deductible for estate tax purposes.

Executor or Personal Representative — The individual or institution named in a will to carry out its instructions, including gathering assets, paying debts and taxes, and distributing property to beneficiaries.

Fair Market Value (FMV) — The current price at which an asset would be expected to sell. FMV is used to determine the value of non-cash charitable gifts, as outlined in IRS Publication 561.

Irrevocable Trust — A trust that generally cannot be modified or terminated after it is established. Most charitable trusts are irrevocable; the donor relinquishes control over the assets in exchange for tax benefits.

Letter of Intent or Gift Agreement — A written document between a donor and an organization outlining the terms of a significant gift, including any donor restrictions on use. While generally not legally binding, it establishes shared expectations and allows the organization to acknowledge and steward the relationship and include the donor in future planning. Also sometimes called **Bequest Intention or Notice of Intent.**

Life Insurance Gift — A planned gift in which a donor names the organization as a beneficiary of a life insurance policy, or transfers ownership of an existing policy to the organization. Various structures offer different tax treatments.

Power of Attorney — A legal document authorizing one person (the agent) to act on behalf of another (the principal). A durable power of attorney remains effective if the principal becomes incapacitated. Relevant in planned giving when a donor's capacity to sign documents is in question.

Probate — The legal process by which a court validates a will and oversees the distribution of a deceased person's estate. Assets that pass through probate are subject to public record and can be contested. Gifts made through beneficiary designations or trusts typically bypass probate.

Qualified Charitable Distribution (QCD) — A direct transfer from an IRA to a qualifying charity, available to IRA owners age 70½ or older. QCDs are excluded from taxable income and can satisfy required minimum distributions (RMDs), making them a tax-efficient gift.

Required Minimum Distribution (RMD) — The minimum amount that must be withdrawn annually from a traditional IRA or employer-sponsored retirement plan once the account owner reaches age 73. Failure to take RMDs results in penalties. QCDs can satisfy RMD requirements while excluding the distribution from taxable income.

Restricted Gift — A gift subject to donor-imposed conditions on its use, such as funding a specific program, endowment, or capital project.

Revocable Living Trust — A trust created during the donor's lifetime that can be modified or revoked at any time. Assets held in the trust pass directly to named beneficiaries at death without going through probate. Charitable organizations can be named as beneficiaries of a revocable living trust.

Trustee — The individual or institution responsible for managing trust assets and administering trust terms on behalf of beneficiaries.

Will or Last Will and Testament — A legal document directing how a person's assets will be distributed after death, naming an executor to carry out those instructions. A valid will must meet state-specific formality requirements.

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