



NEBRASKA CHARITABLE ENDOWMENT TAX CREDIT

QUESTIONS AND ANSWERS

Why is a tax incentive needed for charitable gifting?

The State of Nebraska is at a critical juncture in terms of its philanthropic potential. An estimated \$258 billion will be transferred from one generation to the next over the next 50 years (\$5.2 billion annually). Much of this wealth will be lost to taxes or to heirs residing outside of the state. (See Transfer of Wealth Study by counties at www.nebcommfound.org).

What is the purpose of this tax credit?

To encourage Nebraskans to make gifts to qualified endowments with Nebraska charities that will benefit Nebraska. A qualified endowment means a permanent, irrevocable fund that is used for Nebraska charitable purposes. The funds are held by a Nebraska incorporated or established tax-exempt organization or held for the organization by a bank or trust company.

What is an endowment?

It is somewhat like a savings account. The differences are that only the investment earnings are used for your Nebraska hometown or Nebraska-based charity. Secondly, the principal amount of the fund, your charitable gift, will not be used. This provides continuous and growing funds for your hometown or favorite charity.

When is the credit effective?

For tax years beginning on or after January 1, 2006 through December 31, 2009.

How much is the credit?

Nebraska residents, Sub-Chapter S corporations, partnerships, limited liability companies, estates and trusts are entitled to a 15% credit of the Federal charitable contribution deduction for qualifying planned gifts, up to an annual maximum credit of \$5,000.

Nebraska corporations, estates and trusts are allowed a credit for 10% of the qualifying outright gifts up to an annual maximum credit of \$5,000.

The credit cannot be carried back or forward and it is not a refundable credit.

The credit can be used as a dollar for dollar offset of Nebraska income taxes in addition to using the Federal itemized deduction, upon which the credit is calculated, to reduce federal income taxes.

What type of charitable gifts qualify?

For Nebraska residents, Sub-Chapter S corporations, partnerships, limited liability companies, estates and trusts only qualifying planned gifts to endowments made using certain irrevocable planned gifts will qualify for the credit. The following planned giving methods will qualify: a charitable remainder unitrust or annuity trust, a charitable lead unitrust or annuity trust, a charitable gift annuity, a deferred charitable gift annuity, a charitable life estate agreement, a paid-up life insurance policy, or a pooled income fund trust.

For Nebraska corporations, estates or trusts only qualifying outright gifts to endowments made with gifts of cash or other assets will qualify for the credit.

Can an endowment be established in someone's honor or in memory of a loved one?

Yes, the annual distributions made from an endowment fund can be designated to be made in the name you select for the fund.

How the Nebraska Charitable Endowment Tax Credit works:

John Smith is 70 years old and is interested in a way to increase his retirement income. Also, he wants to receive a fixed stream of income for his lifetime. In addition, John wants to make a gift to his Hometown that has been so good to him and his family. John decides to give \$10,000 to the Nebraska Community Foundation to establish a charitable gift annuity. With this gift he is guaranteed a fixed annual income of 6.5% (\$650) for the rest of his life.

In the charitable gift annuity agreement John directs that any funds remaining in the gift annuity upon his death are to be deposited into his Hometown's **qualified endowment** with the Nebraska Community Foundation.

Below are the calculations illustrating the Nebraska Charitable Endowment Tax Credit for which John is eligible:

Assumptions:

Income beneficiary	70-year-old
Gift of cash to fund charitable gift annuity	\$10,000
Annuity payment rate	6.5%
Federal Charitable Tax Deduction	\$4,316.40

Nebraska Charitable Endowment Tax Credit for Gift:

Tax credit rate	15%
Total tax credit for gift	\$ 647.46 (\$4,316.40 x .15)

Out of Pocket Cost of Gift:

Gifted Amount	\$10,000.00
Less:	
Federal Tax Savings (25% rate)	1,079.00
Nebraska Tax Savings (7% rate)	302.00
Nebraska Tax Credit (15% credit)	<u>647.00</u>
Net Out of Pocket Cost of Gift	\$ 7,972.00

These calculations are for illustration purposes only and should not be considered legal, accounting, or other professional advice.

To receive a free, no obligation explanation of what the Nebraska Charitable Endowment Tax Credit may mean to you please contact Jim Gustafson, Gift Planning Director at 402.323.7341 or at jgustafson@nebcommfound.org