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Gift planners are frequently asked to compute the present value of a planned gift. The calculation of present value can vary widely, however, depending on its purpose. Whenever you are asked to provide the present value of a deferred gift, your immediate response should be, “For what purpose?”

This article will explore four common applications of present value in planned giving.

Charitable income tax deduction computation

Campaign reporting

Gift valuation

Financial accounting

The first three applications represent different ways to determine the present value of the *charitable* portion of the gift. The last application is a way to determine the present value of the *non-charitable* portion of the gift.

Present Value and the Income Tax Deduction

The charitable income tax deduction is one expression of the present value of a planned gift. The methodology for computing the charitable deduction for a planned gift is prescribed by the Treasury Regulations. While the exact procedure for this calculation depends on the gift type being modeled, each calculation shares certain common elements.

Charitable deductions for planned gifts whose terms are based on lives depend in part on Table 90CM, a mortality table derived from the 1990 U.S. Census that is used to estimate how long the gift will last. Deductions for gifts whose terms are for a fixed period of time are based on a cash flow equal to the term of the gift.

For life income gifts except the pooled income fund, the monthly IRS discount rate functions as a present value interest rate. Pooled income fund deductions, in contrast, are computed using a valuation rate that is derived from the investment history of the fund. Either way, this rate is used to discount into today’s dollars the anticipated future income stream the gift will distribute. The charitable deduction is the difference between the funding amount of the gift and the present value of this income stream.

Let's look at the present value of a $10,000 charitable gift annuity that pays 6.7% in quarterly installments for the benefit of a 72 year old annuitant. Assuming the May 2005 discount rate of 5.2%, the charitable income tax deduction and therefore the present value of this gift is $4,236.

Present Value for Campaign Reporting Purposes

The Committee for the Advancement and Support of Education (CASE) publishes guidelines for the uniform reporting of campaign fundraising totals. These standards contain guidelines for crediting planned gifts of all kinds. The CASE standards suggest reporting deferred gifts in separate sections at both their face value and present value.

Under the CASE standards, the present value of a gift annuity, charitable remainder annuity trust, charitable remainder unitrust, pooled income fund gift, or retained life estate (remainder interest in a personal residence or farm) equals the charitable deduction allowable under IRS rules. Therefore, to calculate the present value of any of these gifts for crediting purposes, simply enter the gift information into PGM as you would to calculate a charitable deduction. The charitable deduction number you find on the chart is the amount to enter as the present value for these types of gifts.

CASE views lead trusts as immediate gifts in trust that pay over a period of time. Consequently, its standards call for the sum of lead trust payments that will be made during the first five years to be reported as an immediate gift at face amount and the balance at the present value of the future payment stream.

Instructions on how to implement the CASE campaign reporting standards are in the Help System of Planned Giving Manager. Enter "CASE" in the Index tab, then choose the help topic entitled "CASE Campaign Crediting Guidelines and PGM."

The $10,000 gift annuity example discussed earlier would be reported both at its face amount of $10,000 and its deduction amount of $4,236.

Note that the National Committee on Planned Giving (NCPG) released gift counting guidelines in March that do not make use of present value when counting planned gifts. You can learn the details of these guidelines at www.ncpg.org (click on "Ethics & Standards - Guidelines for Reporting and Counting Charitable Gifts" in the left navigation bar).

Present Value for Valuation Purposes

NCPG has also released standards for determining the value of all types of planned gifts to charitable organizations. This valuation is the process of determining, in today's dollars, what a planned gift will accomplish when received and used for its intended charitable purpose. This process is distinct from NCPG's "Guidelines for Reporting and Counting Charitable Gifts" mentioned above.

The NCPG valuation methodology for planned gifts is a two-step process. In the first step, payout rates, life expectancy or term, and assumed investment returns are used to determine the value of the gift at its projected termination. In the second step, that total future value is discounted backward to the present using a separate, unique discount rate, which is based on expected cost rise rates. The cost rise rate is the inflation rate for a particular sector of the economy, such as health care or higher education. The key variables are life expectancy, investment return rates, and discount rate.

The NCPG standards suggest that a charity, where possible, should develop its own investment return assumptions and cost rise rate to use in its gift valuations. Recognizing that not all charities have the expertise or resources to develop these assumptions, the NCPG standards also provide default investment return assumptions and a cost rise rate for use by charities that don't create their own.

Our $10,000 gift annuity example would be valued at $4,176 using the NCPG valuation standards and its default investment return assumptions of a 5% net return and a 3.4% discount rate. Compare this amount to the $4,236 charitable deduction the IRS would allow for the same gift.

You can read our article on using Planned Giving Manager to implement the NCPG valuation standards at http://www.pgcalc.com/oldtips/tip200405.htm

Present Value from an Accounting Point of View

The Financial Accounting Standards Board (FASB) requires a charity to value annually their planned gift expectancies for purposes of reporting in the charity's annual financial statement. The FASB rules are accounting guidelines. They are not required by state or federal laws or regulations.

The FASB rules are intended to represent the present value of future gift liabilities. The FASB liability is the amount needed to finance the future payment obligations of a planned gift, such as a gift annuity or a charitable remainder trust. The FASB liability is computed according to standards described in FASB Statement 116. It is based on the remaining term of the gift, its payout rate, and an agreed upon interest rate by which to discount future payments. For a specific gift, this interest rate should be consistent year-to-year, whether it's a single rate that the charity applies to all planned gifts, such as 6%, or the IRS discount rate used to compute the donor's deduction for the gift.

Assuming the FASB liability is computed using table 90CM and a 6% discount rate, the FASB liability of our $10,000 gift annuity example is $5,476. Using more recent life expectancy data from the Annuity 2000 mortality table, the FASB liability is $6,158. The FASB liability is the present value of the income stream to the beneficiary, not to the charitable remainderman. Hence, the comparable amounts from our previous examples are $5,764 using the charitable deduction methodology and $5,824 using the NCPG gift valuation approach.

You can read our article about FASB liabilities and how they are computed at http://www.pgcalc.com/oldtips/tip200407.htm

Conclusion

You can see that there is no single correct answer to the question, "What is the present value of this planned gift?" The answer depends on the purpose of your valuation. Once you establish the purpose of your present value calculation, be it for a charitable deduction, a FASB liability, an NCPG valuation, or some other reason, you can complete the correct analysis.

If you have questions about this article or any other topic relating to planned giving, please call PG Calc's client service team at 888-474-2252.

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