

Pooled Income Funds May Continue to be Advantageous in Rising Rate Environment

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A pooled income fund (PIF) may be a very favorable option for charitably inclined donors who seek a simple way to receive a tax deduction, receive an income stream and make a long-term commitment to a cause.

As interest rates continue to rise, generally so will the associated interest rates that are used in part to calculate donors' charitable deductions for life income gifts. With fewer than three years of operating history, a young PIF may use the highest annual average Internal Revenue Code Section 7520 rate from the prior three years minus 1% and rounded to the nearest 0.2% to calculate deductions. PIFs established in 2023 may use a 2.2% rate for deductions. For donors making contributions to a young PIF in 2023, this rate is 2.2%. All things being equal, the lower the rate, the higher the deductions available.

Like a contribution to a charitable remainder unit trust (CRUT), contributing to a PIF allows gifts of appreciated assets without recognition of capital gains, income can be distributed to the donor and their beneficiaries, and the remainder of the gift has potential to grow. A PIF may also potentially offer several advantages over a CRUT, such as lower setup cost and a potentially higher income stream.

PIFs can accommodate younger and more beneficiaries to participate in the income stream, as opposed to the remainder value, which must equal at least 10% of the fair market value of the property contributed to the CRUT at the time of contribution.

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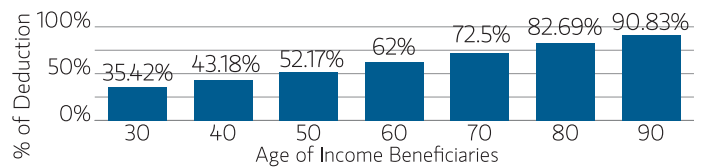
What does it mean to use a lower interest rate for young PIFs?

A lower interest rate for young PIFs creates a higher charitable deduction.

2023 CONTRIBUTIONS

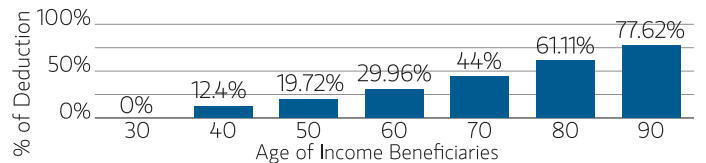
Young Pooled Income Funds

Charitable Deductions Available at 2.2% Young PIF Rate



Charitable Remainder Unitrust Paying 6%

Charitable Deductions Available at 5% 7520 Rate (April 2023)



Source: Section 7520 Rates

Bottom line:

Code Section 7520 rates for the prior three years have peaked to the higher 4% to 5% range, and as a result, the assumed rate for a contribution to a young PIF increased in 2023 and may increase again in 2024. Nonetheless, we believe opportunity remains to capture higher charitable deductions in a young PIF.

¹ The Code Section 7520 rate is 120% of the applicable federal midterm rate (compounded annually), rounded to the nearest two-tenths of one percent.

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