PARK COUNTY
HOUSING COALITION

Steering Committee Meeting Agenda

Wednesday, December 4, 2024 | 4:00 pm - 5:30 pm
HRDC, District IX Livingston Office, 121 S 2nd Second Street

4:00 - 4:05 p.m.	**Welcome back**
4:05 - 4:20 p.m.	**Review of October meeting and follow-up items**
4:20 - 4:35 p.m.	**Annie Beaver: Montana Endowment Tax Credit**
4:35 - 5:00 p.m.	**Q & A with Annie**
5:00 - 5:20 p.m.	**Discussion: ADU programming review & next steps**
5:20 - 5:30 p.m.	**Closing and next steps**

Ground Rules

Respect Each Other
Listening is important
One person speaks at a time (no interrupting)

Respect the Group
Make your points succinctly
Everyone has a right to talk

It's OK to Disagree – Agreeably
Challenge ideas, not people
No "zingers" or cheap shots
Disagreement is an opportunity to learn

Keep the Conversation Constructive
Speak from your experience
Explain your reasoning
Keep an open mind

COMMUNITY REINVESTMENT ORGANIZATION

WHAT IS A COMMUNITY REINVESTMENT ORGANIZATION?

CRO is a new type of organization created by HB819. Qualified and interested organizations applied to become a CRO on or before September 30, 2024. The state will approve or deny these applications on or before December 31, 2024.

HB819 ascribes program oversight to Community Reinvestment Organizations (CRO). CROs must be federally recognized charitable organizations. For a county to access the funds allocated to them, the county must sign a resolution to select a CRO

CROs are entirely responsible for execution of the program, including loan underwriting, loan servicing, and raising match.

WHO IS NEIGHBORWORKS MONTANA?

NeighborWorks Montana (NWMT) is a statewide organization established in 1998 that creates homeownership opportunities for Montana's workforce through collaboration with local partners in communities across Montana.

NWMT is a Community Development Financial Institution (CDFI) certified by the U.S. Treasury, dedicated to providing access to financing that supports housing opportunities. NWMT has been providing down payment assistance loans successfully in Montana for 25+ years. NWMT has tailored programs to support specific homebuyers or markets in cooperation with local partners.

NeighborWorks Montana employs the values of collaboration, transparency, and responsibility in all of its work.

HB819

In 2023 the Montana Legislature passed House Bill 819 which allocates $50M to a Home Buyer Assistance program for homebuyers in Montana. Each county is earmarked a certain amount of the $50M based on County Gross Domestic Product

Program Pillars

- The program will provide homebuyers 30% of the cost of the home as a loan or an investment
- In exchange for this assistance homebuyers agree to an equity cap of 1% per year
- Households are eligible if they earn between 60% and 140% of Area Median Income (AMI)
- The program also requires Community Reinvestment Organizations to provide a 1:1 match of program funding, making the total pool $100M.

NeighborWorks® MONTANA

Why has NWMT applied to become a CRO and why does NWMT want to serve your county?

As a CDFI working statewide in Montana for more than 25 years, NWMT has a sense of responsibility to ensure the program established in HB819 is executed with responsibility, transparency and collaboration. This is a unique opportunity where a large sum of taxpayer funding has been allocated to housing and we want to make this opportunity work in the best way possible for the people it is intended to support: Montana's workforce.

NWMT is a statewide HUD-certified housing counseling and education intermediary, providing HUD-approved housing counseling and education statewide through subgrantee housing counseling agencies. NWMT has been an approved FHA secondary lender and an approved bona fide not-for-profit with the State of Montana Division of Banking & Financial Institutions since 2010.

MORE ABOUT NWMT

$24M+
lent in down payment assistance

$12M
current down payment assistance loan portfolio

1.38%
down payment assistance default rate
(national average: 1.73%)

NWMT keeps default rates low by providing homebuyers with comprehensive housing counseling and home buyer education, access to financial coaches and post purchase counseling, and intentional and personal loan servicing support.

FAQ

1 What is expected of a county by selecting NWMT as CRO?

NWMT is not requiring counties to contribute toward match. NWMT will be responsible for raising match. Counties are encouraged to contribute in any way they find meaningful regarding program design. Some counties are interested in identifying certain parts of the workforce intentional access to this funding, for example (teachers, firefighters, first responders, etc.). NWMT understands its role as a CRO is to rely on local guidance to understand and serve the needs of each community.

2 What is NWMT's plan regarding match?

NWMT is not requiring counties to contribute toward match. NWMT has 25 years of experience raising capital from many different sources: government, philanthropy and private sources. NWMT's current loan assets across down payment and real estate finance exceed $50M. NWMT is pursuing potential match sources, and once approved as a CRO will secure the match dollars required.

3 How do homebuyers access this funding?

As with NWMT's current Down Payment Assistance products, homebuyers will begin with home buyer education and/or housing counseling. Educators and counselors help homebuyers prepare for the responsibility of homeownership. Homebuyers will then identify a first mortgage lender. First mortgage lenders will apply to NWMT on behalf of their borrower. NWMT will do all underwriting and approvals of the CRO loans and will be the loan servicer.

PARK COUNTY
COMMUNITY
FOUNDATION

1. **<u>What is an endowment</u>**?
    a. Assets that are typically invested so that the original funds (corpus) are not spent but rather grow over time
    b. Income from the investments may be used by the organization for programs, operations, or donor-specified purposes
    c. Restricted in perpetuity by the donor (this piggy bank is difficult to raid)

2. **<u>What is the Montana Endowment Tax Credit</u>**?
    a. The METC was established in 1997 as a tax <u>credit</u> that can reduce a taxpayer's <u>state</u> income tax liability (that is, it is a dollar-for-dollar reduction in the actual amount of tax you owe to the State of Montana. It is not a tax deduction, which lowers your taxable income.)
    b. It allows a 40% tax credit up to $15,000 per individual or $30,000 per couple
    c. Businesses can also give to endowments and receive a 20% tax credit up to $15,000 annually
    d. **Key point**: Gifts made by individuals/couples must be made in the form of a *planned gift*. There are 9 types of eligible planned gifts. Two common examples are a Charitable Gift Annuity and a Charitable Remainder Trust.

3. **Pros and Cons of Endowments**
    a. Pros
        - The income from an endowment is unrestricted income to an organization that will re-occur annually (if the market allows) without any additional fundraising
        - It can create stability in an organization
    b. Cons
        - Governed by Spending Policy/limited withdrawals
            - Spending policies can vary (simple market rule, average market rule, inflation-adjusted, etc) but a common example might be

spending 4% of the average value of the account over the past 12-20 quarters

- The amount available to spend in a given year will vary depending on market performance
- An endowment needs to reach critical mass before it is useful

4. **Alternatives to endowments**

Endowments may be a perfect fit for some organizations. An organization with a forever mission may fit perfectly with a forever investment. (Example: a maintenance fund at a museum for perpetual preservation of artifacts.) For other organizations, channeling all available funds into a critical, time-limited mission is better. (Example: a large endowment for the eradication of a disease may be not a good fit if the goal is to prevent current deaths.)

   a. Quasi-endowments or board-directed endowments
   b. Impact Fund

5. **Can PCCF help?** Yes!
   a. PCCF can hold an endowment for another organization, with PCCF's Board of Directors, Finance Committee and staff overseeing the management and administration.
   b. PCCF can hold a fund that is designated to benefit another organization or cause.

A Self-Learning Resource From MSU Extension

MONTANA STATE UNIVERSITY EXTENSION

MontGuide

Save Montana Income Taxes with a Charitable Gift Annuity: A Legacy qualifying for the Montana Endowment Tax Credit (METC)

by Tyler Wiltgen, M.S., CSPG, Former Vice President of Estate, Trust, & Gift Planning, MSU Alumni Foundation; and Marsha A. Goetting, Ph.D., CFP®, CFCS, Family Economics Specialist, MSU Extension

This MontGuide explains how charitable gift annuities could be used to meet both the altruistic and tax savings goals of Montanans.

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IF YOU MADE A $10,000 GIFT TO YOUR FAVORITE charity and you received a **tax credit** that reduced your Montana income tax liability by over $3,000, would you be interested? Keep in mind a **tax credit** is a dollar-for-dollar reduction of the actual income tax you owe to the state Montana, while a **tax deduction** simply reduces your taxable income.

This MontGuide explains how **charitable gift annuities** could be used to meet both the altruistic and tax savings goals of Montanans. While other types of gifts are also eligible for the Montana Endowment Tax Credit (METC), the most common type is charitable gift annuities. Other types of gifts qualified for the Montana Endowment Tax Credit include: charitable remainder trusts; charitable lead trusts; pooled income funds; charitable life estates; and paid-up life insurance policies (see pages 5 and 6).

Montana Legislation

In 1997, the state legislature created a tax credit that could be used to reduce a taxpayer's Montana income tax liability. The legislature wanted to encourage gifts to endowments held by Montana tax-exempt charitable organizations. In its current form, the credit, commonly referred to as the Montana Endowment Tax Credit (METC), is effective through December 31, 2019.

Federal Legislation

With federal tax laws changing in 2018, taxpayers can claim larger standard deductions on their federal income taxes. The standard deduction for singles is $12,000; for married couples, $24,000. Therefore, many taxpayers will not claim any deductions for charitable contributions. For individuals who forgo a charitable deduction because they choose to claim the standard deduction, there will be no savings on federal taxes as a result of a charitable gift. The METC still applies however, resulting in substantial tax savings for Montanans. The example on page 5 assumes the fictitious donor(s) is claiming both a charitable federal deduction and the METC.

Who Can Make Gifts Qualifying for the Montana Endowment Tax Credit?

Individuals and Married Couples. The METC is ***40 percent*** of the allowable federal deduction for the charitable portion of a ***planned gift,*** up to $10,000 for an individual filing a Montana income tax return; $20,000 for a married couple. Gifts can be in the form of cash or securities (stocks, bonds, or mutual funds) or other assets qualifying for a federal income tax deduction. There are two criteria for a planned gift to qualify for the METC.

The *first* criterion is a gift by an individual or couple must be made by one of nine gift instruments to a qualified permanent endowment. The endowment must be held by a tax-exempt Montana 501(c)(3) organization or a Montana bank or a Montana trust company for the benefit of a 501(c)(3) organization. A 501(c)(3) is a United States organization operated exclusively for exempt purposes set forth in Section 501(c)(3) of the Internal Revenue Code. A ***qualified endowment*** is a permanent and irrevocable fund established for a specific charitable, religious, educational or philanthropic purpose.

A charity or non-profit endowment using gift principal for operating expenses, current construction, renovation of buildings, or purchasing equipment does NOT qualify as a permanent endowment. Therefore, a gift used for these purposes would not be eligible for the METC.

The *second* criterion for a gift by an individual or couple to be eligible for the METC, is the contribution must be irrevocable and in the form of a ***planned gift.*** The Montana Legislature has authorized nine techniques for planned gifts. Immediate or deferred payment charitable gift annuities are the two most frequently used.

Business Entities. Unlike an individual or a couple, a business entity is ***NOT*** required to make a planned gift. The METC may be claimed by Montana businesses making direct gifts to qualified permanent endowments held by tax-exempt Montana 501(c)(3) organizations. Eligible businesses include: S and C corporations, partnerships, and limited liability companies.

Businesses are entitled to a METC equal to ***20 percent*** of the amount of the allowable federal deduction, up to the maximum of their Montana income tax liability or $10,000, whichever is lower. Business gifts can be in the form of cash or securities (stocks, bonds, or mutual funds).

Example A: Montana Bobcat, a C corporation, made a $50,000 cash gift to a local community foundation and restricted the gift to a permanent endowment. The METC for Montana Bobcat is equal to 20 percent of the $50,000 gift ($50,000 x 20% = $10,000). Montana Bobcat is eligible for a METC of $10,000, which is also the maximum credit the corporation can claim.

S corporations, partnerships, and limited liability companies pass METC qualifying contributions to their owners to be used on their individual income tax returns.

Estates. An estate can also make a gift to a qualified permanent endowment eligible for the METC. A Personal Representative or Trustee may make gifts from an estate as directed by a written will or trust document.

The METC an estate would receive depends upon the form of contribution made. If the contribution is a planned gift, the estate may claim 40 percent of the value of the qualifying gift. If the estate makes a direct contribution, 20 percent can be claimed. The maximum METC for an estate is $10,000.

Example B: The Personal Representative of the Moore estate followed Bill Moore's will in which he stated *"$60,000 shall be donated to my local 501(c)(3) health care foundation in the form of a permanent endowment that would support Alzheimer's dementia training for certified nurse assistants working in an assisted living facility, nursing home, or similar facility in Billings, Montana."*

The METC for Bill Moore's estate gift is calculated as 20 percent of the $60,000 gift ($60,000 x 20% = $12,000). However, the Moore estate is limited to a METC of $10,000, the maximum credit an estate can claim.

To structure a qualifying METC estate charitable gift, seek the assistance of an attorney, certified public accountant or other financial professional.

What is the difference between an Immediate Payment and a Deferred Payment Charitable Gift Annuity?

A charitable gift annuity is a contract between a donor and a charity. A donor gives cash or other property (such as stocks, bonds, mutual funds or real estate) to a charity in exchange for the charity's promise to pay the donor (annuitant) a lifetime annuity.

- With an ***immediate payment,*** the charity begins the payments within the year after the gift is made.
- With a ***deferred payment,*** the charity begins the payments at a future time designated by the donor.

Immediate and deferred payment charitable gift annuities contain two components:

1. Lifetime income paid to the donor (annuitant) beginning immediately or at a designated time in the future.
2. A gift to the charity upon the donor's death or when the donor decides to cancel the gift annuity and gift future payments to the charity.

The Income Portion: How does a charity determine the rate the organization will pay to the annuitant for a charitable gift annuity?

Most charities offer income payments based on annuity rate guidelines established by the American Council on Gift Annuities (ACGA). Factors such as life expectancies, current interest rates on securities, and market assumptions are included in the establishment of the rate guidelines.

Immediate payment gift annuity rates are available from the ACGA for one-life and two-lives (typically for a married couple). Rates for a one-life immediate payment annuity in five-year increments are shown in Table 1. Rates for Two Lives–Joint and Survivor immediate annuities are listed in Table 2. Rates for all ages can be found at: www.acga-web.org/gift-annuity-rates or by contacting your favorite charity.

TABLE 1. American Council on Gift Annuity Rates (ACGR) for One Life (2018) (Immediate Payment)

Age	Annuity Rate
65	5.1%
70	5.6%
75	6.2%
80	7.3%
85	8.3%

TABLE 2. American Council on Gift Annuity Rates (ACGR) Two Lives: Joint and Survivor (2018) (Immediate Payments)

Younger Age	Older Age	Annuity Rate
65	69 – 71	4.7%
70	75 – 77	5.2%
75	79 – 80	5.7%
80	83 – 84	6.5%
85	88	7.7%

The Charitable Portion: How does a charity determine the METC on a charitable gift annuity?

The *charitable portion* is the original gift amount minus the present value of the annuity payments made by the charity to the donor.

The *present value* is the total value of the annuity payments over the annuitant's life expectancy, discounted by the Applicable Federal Rate (AFR) at the time of the gift. The AFR in March, 2018 was 3.0 percent. The rate is published monthly by the Internal Revenue Service (IRS). For more information go here: www.irs.gov/pub/irs-drop/rr-18-06.pdf. Scroll to Rev. Rul. 2018-06 Table 5.

The gift officer of many larger Montana charities can provide a potential donor with amounts of the charitable portion and present value of an immediate or deferred payment charitable gift annuity. Local community foundations in Montana can provide the figures for smaller charities who do not have their own gift annuity programs.

How does an Immediate Payment Charitable Gift Annuity qualify for the METC?

With an immediate payment charitable gift annuity, an annuitant (the donor) elects to receive income for a single or joint lives. Under a typical agreement, income payments to the annuitant begin within a few months after the date of the gift.

Example C: Claude, age 70, established an *immediate payment charitable gift annuity* with a $15,000 gift to his local community foundation. The foundation's gift officer informed Claude he qualified for an annuity rate of 5.6 percent (See Table 1). He will receive $840 annually for the rest of his life from the local community foundation ($15,000 gift x 5.6% gift annuity rate = $840).

The foundation also calculated the *present value* of Claude's future income payments. The present value is based on Claude's remaining life expectancy of 19½ years (based on actuarial tables), the current ACGA rate (5.6 percent), and the value of the asset funding the contract ($15,000). The present value of Claude's annuity payment is $8,863.60.

The *charitable portion* of Claude's gift is calculated by subtracting the present value of his income payments from the amount of the gift ($15,000 gift - $8,863.60 present value = $6,136.40). The charitable value of Claude's gift annuity is $6,136.40.

TABLE 3. Montana Tax savings with an Immediate Payment Charitable Gift Annuity (Example C: Claude)

Tax Treatment	Immediate Payment Gift Annuity
Original Gift Amount	$15,000
Present Value of the Annuity Payments (rounded)	$8,864
Charitable Portion of the Gift (rounded)	$6,136
METC (40% of charitable portion) tax savings (rounded)	$2,455

Claude's METC is calculated by multiplying the charitable value of gift ($6,136.40) by 40 percent, resulting in an METC of $2,455. If Claude owes $4,000 in Montana income tax, after the METC is applied his income tax liability is $1,545 ($4,000 - $2,455 = $1,545). The METC saved Claude $2,455 in Montana income taxes.

METC rules stipulate the donor cannot gift his/her remaining annuity payments back to the charity within five years of the date of making his/her gift. An exception to the rule applies, however, if the donor passes away within those five years.

Donors who gift their future annuity payments to the charity before the end of their lives are typically eligible for additional federal and Montana income tax deductions. Such gifts, however, do not qualify for the METC.

How does a Deferred Payment Charitable Gift Annuity qualify for the METC?

The most cost effective gift used by donors to qualify for the METC is the **deferred payment charitable gift annuity**. This annuity has similar characteristics to the immediate gift annuity, except annuity payments begin at a future date selected by the donor. Payments typically begin when the donor (annuitant) is older, and therefore, the METC is higher.

With a deferred payment charitable gift annuity, the present value of the income payments is usually lower than with an immediate payment charitable gift annuity because of the length of time before payments begin. This leads to a larger charitable portion of the gift. Therefore, the donor is eligible for a larger METC.

The annuity rate for a deferred payment charitable gift annuity must be at least five percent for the gift to qualify for the METC. As with the immediate payment charitable gift annuity, the donor cannot gift his interest in the contract to the charity within five years of the date of the gift.

Example D: Bill and Marie contacted a Montana university foundation because they wanted to support a scholarship fund. The gift officer suggested a ***deferred payment charitable gift annuity*** because of its eligibility for the METC. The gift officer provided them with an illustration for a $10,000 gift in exchange for income payments beginning when Bill reaches age 90.

Based on their current ages (*Bill, 70 and Marie, 65*) and a deferral period of 20 years for the payments to begin, the illustration revealed Bill and Marie qualified for an annuity rate of 16.7 percent. The gift officer indicated if they wanted to maximize their tax benefits, however, they could reduce the value of their gift annuity income payments simply by electing a lower annuity rate of five percent. Under this arrangement, when Bill reaches age 90, they will begin receiving an annual annuity payment of $500 for the rest of their lives ($10,000 gift x 5% annuity rate = $500).

The charity's gift officer further explained the illustration shows the ***present value*** of Bill and Marie's annuity income payments is $752. The resulting ***charitable portion*** and federal deduction is $9,248 ($10,000 gift - $752 present value of Bill and Marie's annuity payments = $9,248 charitable portion).

They are eligible for a METC of $3,699 ($9,248 charitable portion of gift x 40% = $3,699). Because Bill and Marie's income is taxed at a 24% federal rate, they will save $2,220 on their federal income taxes ($9,248 charitable portion x 24% federal tax rate = $2,220). The total state and federal income tax savings generated by their deferred payment charitable gift annuity is $5,919 ($3,699 METC savings + $2,220 federal tax savings = $5,919).

What are the tax savings if a donor prefers to make an outright gift?

What if Bill and Marie had decided to make an outright gift of $10,000 to the university foundation for immediate use, rather than making their gift through a deferred payment charitable gift annuity?

Because the $10,000 gift would only count as a reduction of state and federal taxable income and NOT qualify for the METC, their income tax benefits would have been substantially lower.

Example E: Bill and Marie would receive $690 in savings on their Montana income taxes for their cash gift [$10,000 x 6.9% (the top Montana income tax rate) = $690]. Because Bill and Marie have a 24 percent federal income tax rate, they would save $2,400 on their federal income taxes ($10,000 x 24% tax rate = $2,400). Their total state and federal income tax savings from an outright gift would have been $3,090 compared to $5,919 with the deferred payment charitable gift annuity ($690 Montana + $2,400 federal = $3,090).

By utilizing the deferred payment charitable gift annuity, Bill and Marie receive an additional $2,829 in tax savings. A comparison of Bill and Marie's income tax benefits with the deferred payment gift annuity and an outright gift is illustrated in Table 4, below.

Substantiating the METC

To claim the METC for charitable gift annuities (immediate and deferred), taxpayers must submit, along with their tax returns, the Montana Department of Revenue form, Qualified Endowment Credit (QEC) for the year in which the gift was made. The METC form (QEC) is available on the Department of Revenue's website: https://app.mt.gov/myrevenue/Endpoint/Form/260.

The charity should provide the taxpayer with information indicating what amount of the contribution qualifies for the METC. The charity should also provide sufficient supporting documentation to back up the taxpayer's claim for the METC on their Montana tax return.

Taxpayers filing electronically are not required to mail the QEC form, unless contacted by the Montana Department of Revenue. Additionally, filers must attach a receipt for their contribution issued by the charity or institution holding the endowment or planned gift.

Subchapter S corporations, partnerships and limited liability corporations are not required to submit the Qualified Endowment Credit (QEC) form with their Montana income tax return because charitable income tax deductions are passed through to shareholders, partners, or members in the same way income and losses are reported. The amount of the charitable contribution proportional to each taxpayer is reported on a federal schedule K-1 statement.

Charitable Remainder Trusts

Donors typically contribute cash or property to charitable remainder trusts for three reasons:

1. To avoid a capital gain on their appreciated assets;
2. To generate income; and
3. To leave gifts to their favorite charities.

Assets are managed and invested within the charitable remainder trust by the trustee for the benefit of:

- Beneficiaries (donor, donor's children or grandchildren, or others designated by the donor) who receive income generated by assets in the trust; and
- Charities who will ultimately receive the balance of the trust at end of the donor's lives or the end of the trust term.

Trustees of a remainder trust can be charitable organizations, banks, trust companies, or even the donor. Trustees are given control of property in a trust with a legal obligation to administer it solely for the purposes specified in the trust document.

TABLE 4. Comparison of State and Federal Income Tax Benefits Between an Outright Gift and a Deferred Payment Charitable Gift Annuity Qualifying for the METC

Tax Treatment	Deferred Payment Gift Annuity	Outright Gift
A. Original Gift Amount	$10,000	$10,000
B. Present Value of the Annuity Payments	$752	N/A
C. Charitable Portion of the Gift	$9,248	$10,000
D. Federal Income Tax Deduction	$9,248	$10,000
E. Federal Tax Savings (24 percent tax rate)	$2,220	$2,400
F. METC (40 percent of charitable portion)	$3,699	N/A
G. Montana Income Tax Deduction Savings (6.9% tax rate)	N/A	$690
Total State and Federal Income Tax Savings (E + F + G)	**$5,919**	**$3,090**

Generally, attorneys representing the charity and donor are involved to develop the trust document containing specific directions to the trustee. Many charities have minimum gift requirements ranging from $50,000 to $100,000 to establish a charitable remainder trust. Once a charitable remainder trust is established, donors may make additional contributions to the charitable remainder trust in future years.

Income beneficiaries of a charitable remainder trust can be one or more individuals of the donor's choosing, including the donor. Income is typically distributed to the trust's beneficiaries during their lives. At the end of the trust's term, the assets are distributed to the remainder beneficiaries, which could be one or more charities listed in the trust document.

For a charitable remainder trust gift to qualify for the METC, the remainder gift to a Montana charity must support a permanent endowment. This must be irrevocably stated in the governing document of the trust – meaning the donor cannot change his or her mind and remove the assets from the charitable remainder trust or redirect the ultimate gift to a non-endowment purpose.

The donor decides which of the two primary types of charitable remainder trusts would work best for his or her situation:

- A **charitable remainder annuity trust** (CRAT) pays a fixed dollar amount annually to income beneficiaries based on a stated percentage of the trust's original assets.
- A **charitable remainder unitrust** (CRUT) pays a fixed percentage of the trust's assets to income beneficiaries. The assets are revalued annually.

Charitable Lead Trusts

Another form of a charitable trust is the **charitable lead trust** in which a donor makes a contribution into a trust managed by a trustee. The trustee makes payments to the donor's qualified charity for a certain period of years chosen by the donor.

At the end of the term the trust terminates and remaining assets are returned to the donor or to a remainder beneficiary of the donor's choosing. A charitable lead trust can be a unitrust that pays a fixed percentage of trust assets to a charity annually or an annuity trust that pays a fixed dollar amount annually to charity.

Pooled Income Funds

Donors can make contributions to **pooled income funds** that are comingled with gifts from other donors for investment purposes. Each donor's contribution is a fraction of the total value of the fund (called a donor's "units of participation"). Each donor receives a fractional share of the income of the fund, based on his or her units of participation. Net investment income of the fund is distributed to pooled income fund donors annually for their lifetimes.

When a donor passes away, the portion of fund assets attributable to him or her is distributed to the charity to fulfill the donor's stated charitable purpose. The charitable deduction available for a pooled income fund gift is calculated as the present value of the remainder gift to charity. The METC is calculated as 40 percent of this value.

Charitable Life Estate

A charitable life estate is typically a gift of a personal residence, farm, ranch, cabin, or condo to a qualified charity with the donor reserving a life estate. Under a charitable life estate agreement, property ownership is gifted to the charity, but the donor continues to live in the home for the rest of his or her life. The donor agrees to pay property taxes, household insurance, and maintenance costs.

After the donor's death, the charity sells the home to fund a charitable permanent endowment. By entering into this irrevocable agreement for a charitable life estate, the donor is entitled to a 40 percent METC in the year the life estate was created.

Paid-Up Life Insurance Policy

Life insurance policies with all premium payments paid, can be gifted to charity and qualify for the Montana Endowment Tax Credit.

These policies include single premium, whole life, universal life, and variable life. Term policies do not qualify. The METC is 40 percent of the replacement value of the paid-up policy, a figure that can be obtained from the life insurance company.

Summary

The Montana Endowment Tax Credit (METC) encourages Montanans to build endowments to support Montana charities and nonprofits. Such endowments will ultimately help assure sustainability for charities in our state. Individual taxpayers can qualify their gifts for the METC by making a planned gift held by or for the benefit of a 501(c)(3) Montana charity. Businesses can qualify for the METC through an outright gift to an endowment. Estates can qualify with a planned gift or outright gift. If you are considering making a gift eligible for the METC, ask the charity how the gift should be structured.

The METC provides Montanans with incentives for philanthropy by significantly increasing the tax benefits for giving. For individual and married taxpayers, the credit is equal to 40 percent of the charitable portion of the planned gift. For individual taxpayers, there is a $10,000 limit on the METC; $20,000 limit for married taxpayers. The METC for businesses is calculated as 20 percent of the gift, with a limit of $10,000. The METC for estates can be either 40 percent for a planned gift or 20 percent for an outright gift.

Online Resources

- Montana Department of Revenue Qualified Endowment Credit form: https://app.mt.gov/myrevenue/Endpoint/Form/260
- Applicable Montana Code Annotated sections:
  - Qualified Endowment Definition: 15-30-2327(1)(c) MCA
  - Planned Gift Definition: 15-30-2327(1)(b) MCA
  - METC for Individuals: 15-30-2328 MCA
  - METC for Businesses: 15-31-161, 15-31-162 MCA
- Administrative Rules of Montana:
  - Tax Credit and Deduction Limitations 42.4.2704 www.mtrules.org/gateway/ruleno.asp?RN=42.4.2704
  - Eligibility Requirements to Hold a Qualified Endowment 42.4.2703 www.mtrules.org/gateway/ruleno.asp?RN=42%2E4%2E2703
  - Creating a Permanent Irrevocable Fund 42.4.2705 www.mtrules.org/gateway/ruleno.asp?RN=42%2E4%2E2705

Acknowledgements

This MontGuide has been reviewed by representatives of the following organizations who recommend its reading by Montanans who are interested in learning how the METC could meet their charitable giving and tax savings goals:

- Billings Clinic Foundation
- Business, Estates, Trusts, Tax and Real Property Section: State Bar of Montana
- Catholic Foundation of Eastern Montana
- The Catholic Foundation for the Diocese of Helena
- Montana Community Foundation
- Montana Society of Certified Public Accountants
- Montana Nonprofit Association
- Montana State University Alumni Foundation
- National Association of Insurance and Financial Advisors: Montana Chapter
- Rocky Mountain College
- Yellowstone Boys and Girls Ranch Foundation

The authors also wish to extend appreciation to members of the general public who also reviewed the publication and made many worthwhile suggestions.

Disclaimer

The information in this MontGuide is for educational purposes only. References to charities or nonprofits are made with the understanding no endorsement is implied and no discrimination against other charities or nonprofits is intended.

Software Calculations

Calculations for the charitable portion and present value of annuities examples were provided by the Crescendo software program. Other software programs may have different results because of the assumptions made within.

MONTANA STATE UNIVERSITY | EXTENSION

File under: Family Finanacial Management
(Estate Planning)
Revised August 2018

Montana Endowment Tax Credit

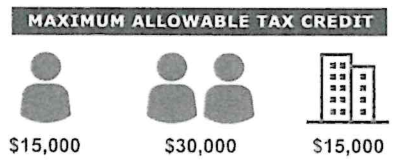
A powerful way to give back to Montana and reduce your taxes

What is the Montana Endowment Tax Credit (METC)?

The Montana Endowment Tax Credit (METC) is a unique opportunity for individuals, businesses, and organizations to support Montana communities while receiving a tax credit. Established in 1997, this credit allows a **40% tax credit** on a qualifying planned gift's federal charitable deduction (**up to $15,000 annually per individual, or $30,000 for couples**) or a **20% tax credit** for direct gifts by qualified businesses (**up to $15,000 annually**).

40% Percentage of individual planned gift value eligible for tax credit.

20% Percentage of business direct gift value eligible for tax credit.



Why Choose a Planned Gift?

Planned gifts, such as charitable trusts, gift annuities, and certain estate gifts, provide donors with income and tax planning tools while supporting Montana's charities and community foundations. These gifts help sustain Montana's nonprofits, ensuring ongoing support for community-focused programs.

Deferred Gift Annuity Example: 61-year-old

1. $10,000 Cash Gift
2. $3,794 METC
3. $5,690 Federal Charitable Tax Deduction
4. Annuity payments are deferred until later, then the Donor receives $500/year for life.
5. After 5 years, the Donor can relinquish future payment rights for a small additional Federal Tax deduction.
6. Upon relinquishment or Donor's death, the remainder goes to the chosen endowment fund(s).

Endowments

Creating an endowment can be an important strategy to set aside funds for the future, and may be a hallmark of financial sustainability. However, creating an endowment is not the right approach for every nonprofit, so it is important to understand what the advantages are, and also what the administrative and fiduciary requirements are to properly maintain an endowment over time.

To start, what exactly are endowments? Endowments may generally be described as assets (usually cash accounts that are invested in equities or bonds, or other investment vehicles) set aside so that the original assets (known as the "corpus") grow over time as a result of income earned from interest on the underlying invested funds. The corpus may also be added to over time. Endowments are commonly used by large institutions, such as universities and hospitals, but also may play a role in any charitable nonprofit's financial management and/or revenue strategy.

- Endowments are not the same as reserve funds. An endowment usually implies that some or all of the use of the endowed assets are *restricted* in some way. Most endowments are designed to keep the principal corpus intact so it can grow over time, but allow the nonprofit to use the annual investment income for programs, operations, or purposes specified by the donor(s) to the endowment or the board of directors.

The corpus of an endowed fund is generally not used to fund annual operating expenses. Instead, the goal of most organizations with endowments is to allow the corpus to grow without withdrawals so that the underlying corpus increases in value over time, and the interest earned is available every year for the stated purpose of the endowment. (Of course, one of the stated purposes of an endowment could be to use the interest to "contribute to the annual operating revenue of the organization.")

When an endowment is created there are generally guiding documents such as a trust instrument or other written documentation of donor intent – or simply a corporate resolution by the board of directors – that establish the endowment and express the guidelines. The guiding documents may literally restrict the use of the endowed funds (referred to as a "restriction").

- For example, the guiding documents may provide that interest earned each year may be used only for certain specified purposes.
- If the donor(s) does not articulate a specific purpose, the board of directors may express how the investment income may be used in a corporate resolution.

What to consider before creating an endowment

- By establishing an endowment, a nonprofit may send a signal to the community and donors that the organization is thinking long-term and building assets for its own future sustainability.
- On the other hand, there are some endowments that are so very large (literally billions of dollars) that the public may wonder why the organization doesn't spend the funds on current needs.
- The growth of the endowment and the amount of income each year that is available to the nonprofit will depend on how well the underlying investments perform. The nonprofit's board of directors may not want full responsibility for oversight of the fund's market performance. In such cases nonprofits generally choose to hire a professional investment firm/money manager to recommend investment vehicles and provide administrative support for the invested funds.

Questions to ask

- How much will it cost the nonprofit annually to manage the endowment, either on its own (bank fees, etc.) or through a professional fund manager/investment manager?
- Is the board of directors comfortable creating a restriction on the use of the assets, or should there be more flexibility in the permitted use(s) of the annual income? How will restrictions, if any, be documented?

Practice Pointers

- Nonprofits with endowments generally also have an investment policy to govern how the endowed assets will be invested.
- Withdrawing money from the corpus is sometimes referred to as "invading the corpus." This is generally prohibited, absent specific authorization from the board to do so.

Additional Resources

- Endowments Definition (Investopedia)
- Endowment for a Rainy Day (Stanford Social Innovation Review)
- Five steps to starting an endowment: even smaller nonprofits can (Candid)
- Should Your Nonprofit Build an Endowment? (Nonprofit Quarterly)
- The Truth About Endowments (Chronicle of Philanthropy)

Disclaimer: Information on this website is provided for informational purposes only and is neither intended to be nor should be construed as legal, accounting, tax, investment, or financial advice. Please consult a professional (attorney, accountant, tax advisor) for the latest and most accurate information. The National Council of Nonprofits makes no representations or warranties as to the accuracy or timeliness of the information contained herein.

Very Simple Example: Endowment withdrawals

	Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7
Q1	-	100,000	650,000	850,000	1,020,000	1,100,000	1,180,000
Q2	25,000	250,000	750,000	900,000	1,040,000	1,120,000	1,200,000
Q3	50,000	500,000	800,000	950,000	1,060,000	1,140,000	1,250,000
Q4	75,000	600,000	825,000	1,000,000	1,080,000	1,160,000	1,300,000
Account value	**75,000**	**600,000**	**825,000**	**1,000,000**	**1,080,000**	**1,160,000**	**1,300,000**
12 quarter look-back: average value			**$ 385,417**	**$ 681,250**	**$ 910,417**	**$ 1,035,000**	**$ 1,137,500**
4% annual withdrawal			**$ 15,417**	**$ 27,250**	**$ 36,417**	**$ 41,400**	**$ 45,500**

Wednesday, December 4, 2024

Park County Housing Coalition Steering Committee

4:00 pm - 5:30 pm ❙ HRDC, District IX Livingston Office, 121 S 2nd Second Street

MEETING MINUTES

In-Person: Katherine Daly (staff), Jamie Isaly, Kris Smith, Carrie Holder, Becky Miller, Samantha Ricketts, Annie Beaver (guest speaker, PCCF)
Virtual: Tawnya Rupe-Mraz
Regrets: Lila Fleishman (staff), Hannah Wologo, Geoff Anderson, Grant Gager

- **Call to Order - 4:03 p.m.**
- **Public Comment** - 4:04 p.m.
  - Katherine called for public comments and there were none.
- **Welcome Back** 4:04 p.m.
  - **Review of the October meeting**
    - Lila shared an update on the 40 Jardine Road development in Gardiner
    - Learned details of Gallatin Impact Fund and 1% for Whitefish. Let's consolidate some of our knowledge, so we are carrying it into the new year.
  - **Updates since the October meeting**
    - 40 Jardine Road not selected for HOME funds, which were oversubscribed. The Montana Department of Commerce received 14 Housing Trust Fund (HTF) and HOME applications totaling over $10 million in worthy proposals, with just under $3.5 million available for this round of applications
      1. I am working on a Mountains and Plains Environmental Justice grant to get $350K for the project. That grant is due December 12th.
      2. Lila and I are continuing to explore other funding opportunities.
    - EPA Community Change Grant application submitted.
      1. Total request was more than $16 million.
         a. Would fund energy audits for up to 76 manufactured homes and weatherization and repair of up to 50 manufactured homes. Expands upon DOE WAP to strengthen Livingston ROCs and set them up for future solarization.
         b. Also includes funding for 1.4 miles of bike and ped. infrastructure improvements and complementary landscaping in Livingston's northeast neighborhood
         c. No idea whether and/or when we will be
    - KD was awarded the last $25K needed from the Montana HealthCare Foundation to fund their position through 2026.
    - ADU program wrapped up.
    - KD completed nearly all of my one-on-one conversations with each steering committee member. KD will share themes during January meeting.
    - Park County may opt-in to the state's new downpayment assistance program, which was authorized under HB 819 last session.
      1. Park County will have access to roughly $650,000.00 provided by the state. The Community Reinvestment Organization in charge of administering these funds will them dollar for dollar (from employers, investors, and financial institutions), so the impact can be larger.
      2. This financial assistance program will help qualified homebuyers with 30% of the total purchase price of a home.

            3. Eligible households are those with incomes between 60% to 140% of the area median income.
            4. The County Commission just needs to opt in by the end of 2024 to receive funds. They will have no financial obligation.
    - **Purpose of today's meeting**
        - Continue learning about models for collecting and distributing money for housing
        - Wrap up our ADU programming for the year
    - **This session's consensus-building tip:**
        - It's important to repeatedly tell folks what you're doing and why.
- **Annie: MT Endowment Tax Credit** 4:32 p.m.
    - Materials included in packet
- **ADU Programming Review & Next Steps** - 5:00 p.m.
    - More than 30 volunteers and more than 60 volunteer hours contributed for the three-part workshop series and the two ADU tours
    - More than 30 participants in the tours.
    - Total of 38 people registered for ADU workshop series.
        - Between 20-25 people in sessions 1 and 2, session 3 had about 11 people.
            1. More than 30 of the folks registered are located in Livingston.
            2. 60% of registrants are ages 50+
            3. 12 new subscribers to PCHC email list
        - Great feedback on the workshop.
            1. People would really like a list of preferred contractors and how to vet contractors. This seems like low-hanging fruit.
                a. Would any of you like to work with me on developing this?
            2. Workshop participants are also open to grant and loan programs that come with term-limited deed restrictions. So, that's great news.
                a. Folks in the URA might like help with their home rehab grant applications, which is something I can provide.
                b. Now that I have that info, I might submit a grant that I drafted earlier this year to Livingston Community Trust for small grants to homeowners wishing to build an ADU.
        - Materials are online and are available for everyone to use!
- **Closing and Next Steps** - 5:10 p.m.
    - Next meeting is Wednesday, January 29, 2024
        - We will be talking about your priorities for your next year of service and our 2025 work plan!
- **Meeting adjourned at 5:11 p.m**