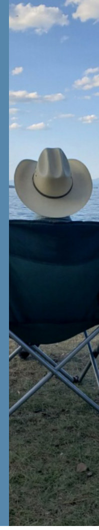
MontGuide

FAMILY FINANCIAL MANAGEMENT

MT202012HR, REVISED 09/24



Patti Goroski

Save Montana Income Taxes with a Charitable Gift Annuity:

A Legacy Qualifying for the Montana Endowment Tax Credit (METC) also known as a Qualified Endowment Credit (QEC)

By Marsha A. Goetting, Ph.D., CFP®, CFCS, MSU Extension Family Economics Specialist and Kevin Brown, Associate Vice President of Estate, Trust, and Gift Planning, MSU Alumni Foundation

This MontGuide explains how immediate and deferred charitable gift annuities can meet Montanans' philanthropic and tax savings goals.

GIVING $15,000 TO A FAVORITE CHARITY OR NONPROFIT could qualify you for a Montana Endowment Tax Credit (METC) that reduces Montana income taxes by $5,734. This tax credit equates to a dollar-for-dollar reduction of $5,734 in actual Montana income tax owed.

The Montana Code Annotated lists nine types of planned gifts eligible for the Montana Endowment Tax Credit (METC). These include charitable gift annuities, deferred charitable gift annuities, charitable remainder unitrusts, charitable remainder annuity trusts, pooled income fund trusts, charitable lead trusts, charitable lead annuity trusts, charitable life estate agreements, and paid-up life insurance policies. The most common planned gift is through a charitable gift annuity.

Montana legislation

In 1997 the Montana legislature created a tax credit for a special type of planned gift designed to reduce a taxpayer's state income taxes. The legislature wanted to encourage residents to make gifts to help sustain Montana's charitable and nonprofit organizations. The 2023 legislature made the METC permanent.

Federal legislation

Under present federal statutes, taxpayers can claim a larger standard deduction on their federal income returns than in the past. The standard deduction in 2024 for singles is $14,600 (filing jointly, $29,200). Each year the standard deduction amount increases based on the Consumer Price Index.

Many Montana taxpayers do not claim deductions for charitable contributions on their tax returns because they do not have enough eligible tax deductions to claim more than the federal standard yearly deductions (listed previously). Thus, no federal income tax savings result when making charitable gifts. However, there can be substantial *state* income tax savings for Montanans who make one of the nine planned gifts eligible for the METC.

What is the amount of the Montana Endowment Tax Credit?

For individuals and those filing jointly, the METC is 40 percent of the charitable portion of a planned gift, up to $15,000 for an individual filing a Montana income tax return and $30,000 for married couples filing jointly.

How do I know if my gift qualifies for the Montana Endowment Tax Credit?

There are two criteria for a gift to qualify for the METC.

The first is that an individual or married couple making a planned gift must use one of the nine gift types listed in state law to establish a qualified permanent endowment for specific charitable, religious, educational, or philanthropic purposes. The contribution must be irrevocable.

The second is a tax-exempt Montana 501(c)(3) organization or a Montana bank or a trust company must hold the gift in a qualified permanent endowment. The organization can use only the resulting investment income from the endowment for specific purposes of the organization.

A charity or non-profit who uses donated gifts directly for construction, renovating, or buying operational assets (for example, buildings or equipment), does NOT meet the definition of a qualified permanent endowment. Therefore, a gift to a charity or non-profit who uses a gift for these purposes would not qualify for the METC.

Can a business donation qualify for the Montana Endowment Tax Credit?

Yes, unlike an individual or a couple filing jointly, a business entity is not required to make a planned gift to qualify for the METC. Montana businesses can claim an METC by making direct gifts to existing qualified permanent endowments. Types of businesses eligible for the METC include sole proprietorships, S and C corporations, partnerships [including limited liability partnerships (LLPs)], and limited liability companies (LLCs).

The METC for a business is 20 percent of the gift amount that is allowable as a federal deduction, up to the maximum of the Montana income tax liability or $15,000, whichever is lower. Business gifts can be in the form of cash or securities (stocks, bonds, or mutual funds). Partnerships, S corporations, and limited liability companies pass METC qualifying contributions to their owners. The owners then list the amount on their Montana individual income tax returns.

> ***Example:*** Montana Bobcat, a C corporation, made a $75,000 cash gift to a permanent endowment set up by a local community foundation. The METC for the Montana Bobcat corporation is 20 percent of the $75,000 gift ($75,000 x 20% = $15,000). Montana Bobcat is eligible for a METC of $15,000, which is also the maximum credit the C corporation can claim. The CEO of Montana Bobcat views the company's gift as "costing" only $60,000 instead of $75,000 because of the $15,000 METC ($75,000 - $15,000 = $60,000).

Can estates and trusts make gifts that qualify for the Montana Endowment Tax Credit?

The trustee can make a gift from a trust to an irrevocable qualified permanent endowment eligible for the METC, if the trust document allows such a gift. A personal representative can make gifts from an estate if directed to do so by a provision in the deceased's Will.

The METC an estate or trust receives depends upon the form of contribution made.

- If the contribution is a planned gift, the estate or trust may claim 40 percent of the value of the qualifying gift up to $15,000.
- If the estate or trust makes a direct contribution, only 20 percent of the donation can be claimed for the METC. Regardless of the type of gift, the maximum amount of the METC for an estate or trust is $15,000.

> ***Example for Will:*** The Personal Representative of the Moore estate followed a provision of Bill Moore's Will in which he wrote "I direct my Personal Representative to donate $100,000 to a Montana 501(c)(3) health care foundation in the form of a permanent endowment. The gift shall be used to support Alzheimer's disease training for certified nurse assistants working in an assisted living facility, nursing home, or similar long-term care facility in Montana."
>
> The calculation of the METC for Bill Moore's estate gift is 20 percent of the $100,000 gift, which is $20,000 ($100,000 x 20% = $20,000). However, the Moore estate is limited to $15,000, the maximum amount of the METC an estate can claim.
>
> ***Example for a Testamentary Trust:*** The Trustee of the Bobcat trust created on March 25, 2025, followed the directions in the trust document, in which was written, "$200,000 shall be donated to the Montana 4-H 501(c)(3) in the form of a permanent endowment to support scholarship funds for 4-H youth."
>
> The calculation of the METC gift for the Bobcat's gift from the trust is 20 percent of the $200,000 gift, which is $40,000 ($200,000 x 20% = $40,000). However, the Bobcat Trust can only claim $15,000, the maximum amount allowed for the METC.

To structure an estate or charitable gift qualifying for the METC, seek legal advice from an attorney to assure a bequest qualifies for the METC.

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 or nonprofit. A donor gives cash or other property *(such as stocks, bonds, mutual funds, or real estate)* to a charity or nonprofit in exchange for the promise of the organization to pay the donor *(annuitant)* a fixed stream of payments for life.

- With an *immediate* payment, the charity or nonprofit begins making the payments to the donor within the year after the gift.
- With a *deferred* payment, the charity begins the payments at a future date chosen by the donor.

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

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

What is the interest rate on a *Charitable Gift Annuity?*

Most charities offer monthly, quarterly, or annual income payments based on annuity rates established by the American Council on Gift Annuities (ACGA). Immediate payment gift annuity rates are available from the ACGA for one-life and two-lives.

Table 1 illustrates rates for a one-life immediate payment annuity in five-year increments effective January 1, 2024. **Table 2** shows rates for two lives-joint and survivor immediate annuities. Rates for all ages are available at www.acga-web.org/current-gift-annuity-rates or by contacting a local charity or nonprofit.

How does a charity determine the amount of METC on a *Charitable Gift Annuity?*

Many 501(c)(3) charities and nonprofits have software that simplifies METC calculations. They can provide potential donors with printouts showing the charitable part of the gift, the present value of an immediate or deferred payment charitable gift annuity, and the resulting METC. Local community foundations in Montana can also provide similar printouts for charities or nonprofits that do not have software capable of making these types of calculations.

What is the METC on an *Immediate Payment* Charitable Gift Annuity?

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

> ***Example:*** Claude, age 70, set up 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 6.3 percent (See **Table 1**). Claude will receive $945 annually for the rest of his life from the local community foundation ($15,000 gift x 6.3% gift annuity rate = $945). The tax-free portion of the payment is $564. The balance of $381 is taxed as ordinary income by the state and federal governments ($945 - $564 = $381). The charitable portion of Claude's $15,000 gift annuity is $6,025. The METC saved Claude $2,410 in Montana income taxes (See **Table 3**). The tax-free and charitable portions are available in printed format provided by the charity or non-profit.

Table 1. **Single Life Maximum Gift Annuity Rates*** in 5-year increments by age

Age	Annuity Rate
65	5.7%
70	6.3%
75	7.0%
80	8.1%
85	9.1%

* American Council on Gift Annuity Rates (ACGR) for Immediate Payment effective January 1, 2024

Table 2. **Two Lives: Joint and Survivor Maximum Gift Annuity Rates*** in 5-year increments for the younger age individual

Younger Age	Older Age	Annuity Rate
65	65	**5.0%**
70	76 – 77	**5.8%**
75	78 – 79	**6.4%**
80	84 – 85	**7.3%**
85	89	**8.6%**

* American Council on Gift Annuity Rates (ACGR) (Immediate Payments) effective January 1, 2024

Table 3. **Montana Income Tax Savings with an *Immediate* Payment Charitable Gift Annuity**

Tax Treatment	*Immediate* Payment Gift Annuity (Rounded)
Original gift amount	$15,000
Charitable part of the gift	$6,025
METC (40% of charitable part) tax savings	$2,410

What is the METC on a *Deferred Payment* Charitable Gift Annuity?

The most cost-effective gift donors use 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 of the gift. The longest a donor can defer payments is their life expectancy.

The annuity rate for a deferred payment charitable gift annuity must be at least five percent to qualify for the METC. As with the immediate payment charitable gift annuity, the donor cannot gift future annuity payments to the charity or nonprofit within five years of the gift date.

Example: Marie and Bill 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 a printed illustration for a $15,000 gift in exchange for deferred income payments beginning when Bill reaches age 95 and when Marie reaches age 88 with the minimum annuity rate of 5%.

Based on their current ages (Marie, 70 and Bill, 77), if Bill and Marie hold the annuity until Bill is 95 and Marie is 88, they will begin receiving an annual annuity payment of $750 for the rest of their lives ($15,000 gift x 5% annuity rate = $750). The foundation's gift officer explained that the printout shows Marie and Bill are eligible for a METC of $5,733.60 (**Table 4**). Bill and Marie can make a gift back to the Montana university foundation of their annuity after five years if they do not need the payments. After their deaths, the funds will pass to their scholarship fund.

Table 4. Montana Income Tax Savings with an *Deferred* Payment Charitable Gift Annuity

Tax Treatment	*Deferred* Payment Gift Annuity (Rounded)
Original gift amount	$15,000
Charitable part of the gift	$14,334
METC (40% of charitable part) tax savings	$5,734

What are the Montana income tax savings if a donor makes an outright gift?

What if Marie and Bill had decided to make an outright gift of $15,000 to a Montana university foundation for immediate use, rather than using the planned gift of an immediate or deferred payment charitable gift annuity? Montana considers the $15,000 gift as an income tax deduction, not a tax credit. Their state taxable income is reduced and thus they pay a lower amount in income taxes. However, the gift would NOT qualify for the METC. Their state income tax savings would be lower with an outright gift rather than one qualifying for the METC.

Example: With an outright gift Marie and Bill would receive $885 in savings on their Montana income taxes for their $15,000 cash gift [$15,000 x 5.9% (the top Montana income tax rate in 2024) = $885]. Marie and Bill will not save any federal income taxes with their gift because they took the marital standard deduction of $29,200. This amount is larger than their total itemized deductions of $9,885.

By using the deferred payment charitable gift annuity, Marie and Bill received a METC of $5,734. A comparison of their income tax savings with the deferred payment gift annuity, immediate gift annuity, and an outright gift is in **Table 5**.

Table 5. Comparison of Montana Income Tax Benefits Utilizing a Deferred Payment Charitable Gift Annuity vs. Immediate Gift Annuity qualifying for the METC vs. an Outright Gift

Tax Treatment	Deferred Gift Annuity	Immediate Gift Annuity	Outright Gift
Original gift amount	$15,000	$15,000	$15,000
Charitable portion of the gift	$14,334	$6,025	$15,000
METC (40% of charitable portion)	$5,734	$2,410	NA
Montana Income Tax Savings (5.9% tax rate)	$5,734	$2,410	$885

Substantiating the Montana Endowment Tax Credit

The charity or nonprofit should provide a taxpayer with information showing the amount of the donation qualifying for the METC and supply supporting documentation to back up the taxpayer's claim for the METC on their Montana tax return. Taxpayers must attach a receipt to the QEC form for their contribution issued by the charity or nonprofit holding the planned gift.

FILING BY MAIL

To claim the METC for charitable gift annuities (immediate and deferred), taxpayers must send, along with their tax returns, the Montana Department of Revenue form, *Qualified Endowment Credit (QEC) (Form 260)*, for the year of the gift. Form QEC is available on the website of the Department of Revenue: https://mtrevenue.gov/publications/qualified-endowment-credit-form-qec/

FILING ELECTRONICALLY

Taxpayers who file electronically do not have to mail the QEC form unless contacted by the Montana Department of Revenue to do so. Subchapter S corporations, partnerships and limited liability companies do not send the QEC form with their Montana income tax return. Charitable income tax deductions for these types of businesses pass through to shareholders, partners, or members in the same way as income and losses. The amount of the proportional charitable contribution for each taxpayer appears on the federal schedule K-1 statement.

Summary

The METC provides Montanans with incentives for philanthropy by significantly increasing the tax benefits for giving. 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 or nonprofit. For individual and joint filing taxpayers, the credit is equal to 40 percent of the charitable part of the planned gift.

For individual taxpayers, there is a $15,000 limit on the METC ($30,000 limit for those filing jointly). The METC for businesses is calculated as 20 percent of the gift, with a limit of $15,000. The METC for estates can be either 40 percent for a planned gift or 20 percent for an outright gift with a limit of $15,000 annually.

The METC encourages Montanans to donate to qualified permanent endowments to support and help assure sustainability for charities and nonprofits in Montana.

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 or nonprofit officer about how to structure the gift.

Resources

- Montana Department of Revenue Qualified Endowment Credit form: mtrevenue.gov/publications/qualified-endowment-credit-form-qec/
- Administrative Rules of Montana (2023). §42.4.2701 through §42.42.708
- Montana Code Annotated (2023). §15.30.2327, §15.30.2328
- SB 506: *An Act revising the tax credit for contributions to a qualified endowment; revising the maximum donation that qualifies for the credit, repealing the termination date of the credit*. https://leg.mt.gov/bills/2023/billpdf/SB0506.pdf

Acknowledgments

Representatives of the following organizations have reviewed this Montguide and recommend its reading by Montanans who are interested in learning about the METC, also known as the Montana Qualified Endowment Tax Credit.

- Montana Community Foundation
- Montana State University Alumni Foundation

Disclaimer

The information in this MontGuide is for educational purposes only. No endorsement of any charity or nonprofit is implied. Furthermore, there is no discrimination against other charities or nonprofits not mentioned as examples.

Software calculations

Calculations for the METC examples used in the MontGuide are provided by the PG Calc software program. Other software may have slightly different results because of assumptions made within the programs.

MT202012HR, REVISED 09/24

FAMILY FINANCIAL MANAGEMENT (ESTATE PLANNING)

To download more free online MontGuides or order other publications, visit our online catalog at *store.msuextension.org,* contact your county or reservation MSU Extension office, or e-mail *orderpubs@montana.edu.*