2006 Qualified Endowment Credit

15-30-165 and 15-30-166, 15-31-161 and 15-31-162, MCA

MONTANA
QEC
Rev. 11-06

Name (as it appears on your tax return) _____

Your Social Security Number or Federal Employer Identification Number _____

If this credit is a pass-through to you from a partnership or S corporation enter below the name, FEIN, and your percentage of ownership in the partnership or S. corporation.

Name_____ FEIN_____% of Ownership_____

1a Enter the name and address of the tax-exempt Montana organization, qualified under 26 U.S.C. 501(c)(3), that is holding the qualified endowment:
Name _____
Address _____
City, State, Zip _____

1b Enter the name and address of the trustee that is administering the planned gift:
Name _____
Address _____
City, State, Zip _____

1c Enter the name and address of the bank or trust company holding the qualified endowment on behalf of a tax-exempt organization:
Name _____
Address _____
City, State, Zip _____

2 Check the appropriate box indicating the type of gift you contributed.

☐	Charitable remainder unitrust	☐	Charitable gift annuity
☐	Charitable remainder annuity trust	☐	Deferred charitable gift annuity
☐	Pooled income fund trust	☐	Charitable life estate agreement
☐	Charitable lead unitrust	☐	Paid-up life insurance policy
☐	Charitable lead annuity trust	☐	Qualified outright charitable contribution

An outright charitable contribution qualifies for this credit only when a C. corporation, S. corporation, partnership, trust, estate, or limited liability company makes the contribution. An individual cannot claim this credit for an outright charitable contribution.

3 Enter here the date the qualified contribution was made. ..... 3 _____

4 Enter here the present value of the aggregate amount of the charitable gift portion of your planned gift, or your outright charitable contribution (the charitable deduction amount). .... 4 _____

5 If your gift is a planned gift, multiply line 4 by .40 (40%) and enter the result here, but not more than $10,000. If your gift is a qualified outright charitable contribution, multiply line 4 by .20 (20%) and enter the result here, but not more than $10,000. **This is your Qualified Endowment Credit.** ..... 5 _____

If you are an individual, transfer the amount on line 5 to Form 2, Schedule V, line 3.
If you are a C. corporation, transfer the amount on line 5 to Form CLT-4, Schedule C, line 12.
If you are an S. corporation, transfer the amount on line 5 to Form CLT-4S, Schedule II, line 9.
If you are a partnership, transfer the amount on line 5 to Form PR-1, Schedule II, line 9.

When you file your Montana income tax return electronically, you represent that you have retained all documents required as a tax record and that you will provide a copy to the department upon request.

General Instructions

What is a qualified endowment?

A qualified endowment is a permanent, irrevocable fund that is held by:

- A tax-exempt 501(c)(3) corporation formed under the laws of Montana; or
- A bank or trust company holding an endowment fund on behalf of a Montana or foreign 501(c)(3) organization.

What is a "permanent irrevocable fund"?

A permanent irrevocable fund is a fund that receives or will receive the charitable gift portion of a planned gift or a direct charitable contribution, and holds the charitable gift or contribution on behalf of a tax exempt 501(c)(3) organization for the life of the organization. The present value of the charitable contribution at the time that the donor makes a planned gift or an outright contribution to the fund is not expendable by the 501(c)(3) tax exempt organization on a current basis under the terms of the gift document or other governing document.

Who is entitled to the qualified endowment credit and how much is the credit?

If you are an individual, a C. corporation or an estate, you are entitled to a credit against your tax liability equal to 40% of the charitable gift portion of a planned gift.

If you are a C. corporation, an S. corporation, partnership, trust, estate or a limited liability company you are entitled to a credit against your tax liability equal to 20% of the outright charitable contribution to a qualified endowment.

The maximum credit that you may claim for contributions made from all sources in the year is $10,000. If you are married and both spouses gave a qualified gift, each spouse is entitled to a maximum $10,000 credit. Your credit cannot exceed your tax liability and you cannot carry back or carry forward any unused credit.

If you are a S. corporation, partnership, or limited liability company your credit is attributed to your shareholders, partners, members or managers in the same proportion used to report the corporation's, partnership's or limited liability company's income or loss for Montana tax purposes.

What types of planned gifts qualify for this credit?

In order to qualify for the endowment credit an individual must contribute an irrevocable planned gift with the remainder to a permanent endowment. The types of gifts that qualify for this credit and a description of these gifts are:

- **Charitable remainder unitrust.** This is a trust in which property is transferred and invested by the trustee who each year pays a fixed percent of the unitrust value, revalued annually, to one or more private income beneficiaries for the life of beneficiaries, a term of years, or both, with the remainder interest in the trust transferring to, or for the use of the charity, or retained by the trust for the use of the charity.
- **Charitable remainder annuity trust.** This is a trust in which property is transferred and invested by the trustee who each year pays a fixed dollar amount to one or more private income beneficiaries for the life of the beneficiaries, a term of years, or both, with the remainder interest in the trust then transferring to, or for the use of the charity, or retained by the trust for the use of the charity.
- **Pooled income fund trust.** This is a trust in which property contributed by donors is pooled together with other investors. All the assets transferred to the fund are added together and invested. This pooled fund creates a diversified portfolio in which all participants receive a share of the earnings.
- **Charitable lead unitrust.** This is a trust in which property is transferred and invested by the trustee who each year pays a fixed percentage of the unitrust value, revalued annually, to the charity for a term of years or during the lives of specified linear descendants, with the remainder interest then transferring to private beneficiaries named by the donor.
- **Charitable lead annuity trust.** This is a trust in which property is transferred and invested by the trustee who each year pays a fixed dollar amount to the charity for a term of years or lifetime(s), with the remainder interest then transferring to private beneficiaries named by the donor.
- In order for the following two annuities to qualify for a charitable deduction or the qualified endowment credit, these annuities have to be given to a charitable organization that, at the time the annuity is issued, have:
  - a minimum of $300,000 net worth or a minimum $100,000 in unrestricted cash, cash equivalent or public traded securities;
  - been in business for at least 3 years; and
  - one-half of the outstanding annuity is maintained in a separate annuity fund

  If the above requirements are not met the gift annuity must be commercially insured by a licensed insurance company qualified to do business in Montana.
- **Charitable gift annuity.** This is the transfer of cash or property to a charity in exchange for the charity's promise to pay the donor and, if applicable, the surviving annuitant, a lifetime annuity. This type of annuity is considered a bargain sale that results in part taxable gain and a charitable deduction.
- **Deferred charitable gift annuity.** This is an annuity in which payments to the donor do not begin until a future date.
- **Charitable life estate agreement.** This is a gift to a charity of a personal residence that is subject to a reserved life estate.
- **Paid-up life insurance policy.** This is a life insurance policy in which all the premiums have been paid that usually entitles the donor to a current deduction equal to the cost of replacing the policy with a single premium life insurance policy at the donor's current age.

If I claim the qualified endowment credit, can I also take a charitable deduction for the amount of the gift?

No. The amount of your contribution that is used to calculate your qualified endowment credit cannot also be claimed as a charitable contribution on your Montana tax return. You can claim a charitable deduction for that portion of the contribution not used to calculate this credit.

Questions? Please call us at (406) 444-6900 or TDD (406) 444-2830 for hearing impaired. To learn more about the endowments state-wide visit the Governor's Task Force on Endowed Philanthropy website at *http://www.endowmontana.org*.