Clear Form

MONTANA
QEC
Rev. 08 10

Montana Department of REVENUE

2010 Qualified Endowment Credit

15-30-2327 and 15-30-2328, 15-31-161 and 15-31-162, MCA

Name (as it appears on your tax return) ______________________

Social Security Number or Federal Employer Identification Number

If this credit is passed through to you from a partnership or S corporation, enter the entity's name, FEIN and the percentage used to report the corporation's or partnership's income or loss for Montana income tax purposes.

Name ______________ FEIN ______________ Percentage ________

1a. 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 ______________________

b. Name and address of the trustee of the trust administering the planned gift:

Name ______________________
Address ______________________
City, State, Zip ______________________

c. 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 remainder annuity trust
- ❑ Pooled income fund trust
- ❑ Charitable lead unitrust
- ❑ Charitable lead annuity trust
- ❑ Charitable gift annuity
- ❑ Deferred charitable gift annuity
- ❑ Charitable life estate agreement
- ❑ Paid-up life insurance policy
- ❑ 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. Date the qualified contribution was made....................3.

4. 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% (0.40) 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% (0.20) and enter the result here, but not more than $10,000. **This is your qualified endowment credit.**....................5.

Enter line 5 on your respective form:
Form 2, Schedule V for individuals.
Form CLT-4, Schedule C for C corporations.
Form CLT-4S, Schedule II for S corporations.
Form PR-1, Schedule II for partnerships.
Form FID-3, See instructions for FID-3, line 32, Other nonrefundable credits.

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. If you file electronically, you do not need to mail this form to us unless we contact you for a copy.

Form QEC General Instructions

What is a qualified endowment?

A qualified endowment means a permanent, irrevocable fund established for a specific charitable, religious, educational, or eleemosynary purpose 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 means a fund comprised of one or more assets that are invested for the production or growth of income, the principal of which must be retained and the income of which may be added to the principal or expended. Investment assets may include cash, securities, mutual funds, or other investment assets. A "building fund" or other fund that is used to accumulate contributions that will be expended is not a permanent irrevocable fund. A fund from which contributions are expended directly for constructing, renovating or purchasing operational assets, such as buildings or equipment, is not a permanent irrevocable fund.

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

If you are an individual, you are entitled to a credit against your tax liability equal to 40% of the present value of the charitable gift portion of a planned gift. Only contributions in the form of a planned gift qualify for the credit.

The maximum credit you may claim against your individual income tax liability for all contributions you make is $10,000, whether you are single or married. Unused credits cannot be carried to any other tax year.

If you are a C corporation, or an S corporation, partnership, or a limited liability company engaged in an active trade or business, you are entitled to a credit equal to 20% of your charitable contributions to a qualified endowment. Your contributions do not have to be in the form of a planned gift.

A C corporation's credit is the lower of its corporation license tax liability or $10,000.

The credit for the contributions of an S corporation, partnership, or limited liability company is attributed to its shareholders, partners, or members in the same proportion used to report the corporation's, partnership's or limited liability company's income or loss for Montana tax purposes, and the maximum credit that each shareholder, partner, or member may claim against their tax liability is $10,000.

If you are an estate, the credit you may claim, and unused amounts your beneficiaries may claim, depend on the form of contribution you make. If your contribution is a planned gift, you may claim the 40% amount and if it is a direct contribution to a permanent endowment, you may claim the 20% amount. Any amount not used by an estate can be attributed to each beneficiary of the estate in the same proportion used to report the beneficiary's income from the estate for Montana income tax purposes. The maximum credit for each beneficiary is $10,000.

What types of planned gifts qualify for this credit?

The types of planned gifts that qualify for this credit are irrevocable contributions to a permanent endowment held by or for a tax exempt organization when the contribution uses any of the following:

- **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. The trust agreement has to provide that the trust can not termination and the beneficiaries' interest in the trust may not be assigned or contributed to the qualified endowment sooner than the earlier of the date of death of the beneficiaries, or 5 years from the date of the contribution.
- **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. The trust agreement has to provide that the trust can not termination and the beneficiaries' interest in the trust may not be assigned or contributed to the qualified endowment sooner than the earlier of the date of death of the beneficiaries, or 5 years from the date of the contribution.
- **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.

  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 have met the following requirements 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.
  - Have been in business for at least 3 years.
  - Have 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. The annuity agreement has to provide that the interest of the annuitant or annuitants in the gift annuity may not be assigned to the qualified endowment sooner than the earlier of the date of death of the annuitant or annuitants or 5 years after the date of the contribution. The charitable organization issuing the annuity must also meet additional requirements imposed in 33-20-701, MCA, that are administered by the Montana Commissioner of Insurance.
- **Deferred charitable gift annuity.** This is an annuity in which payments to the donor do not begin until a future date.

Deferred charitable gift annuities are subject to the same requirements as charitable gift annuities. In addition, the payment of the annuity has to begin within the life expectancy of the annuitant or of the joint life expectancies of multiple annuitances.

- **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.

What happens if I recover my charitable gift this year?

If a charitable gift is recovered in the current year, you will have to include as income the amount previously deducted, to the extent it reduced your individual income tax or corporation license tax, and increase the amount of tax due by the amount of the credit previously allowed.

To learn more about the endowments state-wide, visit the Governor's Task Force on Endowed Philanthropy website *www.endowmontana.org.*

Questions? Please call us toll free at (866) 859-2254 (in Helena, 444-6900).