

I'D LIKE

TO GIVE,

BUT...

“I’d like to give, but . . .”

Each of us who has ever been asked for a charitable gift has thought, and probably said, these words at least once.

Sometimes, of course, you may really mean “No.” But perhaps you really mean “not now” or “I don’t see how I can.” You would genuinely like to make the gift, but for one or more reasons, the time just doesn’t seem right. Only you can know your own and your family’s needs and obligations.

But if you really would like to make the gift, the following suggestions may make it possible for you to say “Yes.”

This booklet describes some of the most common concerns people have about making charitable gifts and presents a number of alternative ways to give. One of them may provide the solution that enables you to meet your own obligations while also making the gift you would like to say “Yes” to.

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“I’d like to give, but . . . I just don’t have the cash.”

Perhaps your assets are largely invested in securities, real estate or business interests. If you have such property that has appreciated in value while you have owned it, you may be able to use that property, or a portion of it, to make a gift of comparable value.

By giving in this way, you are entitled to an income tax deduction based on the asset’s value at the time of the gift—while bypassing capital gains tax liability. By giving in this way, you may even be able to make a larger gift than you thought possible.

Example: Mrs. Ross was considering making a gift of \$100,000 to a charitable interest. She planned to sell some shares of stock that she had purchased several years ago at \$15 a share; the stock is now worth \$40 a share. She would have to sell 2,800 shares and pay more than \$10,000 in tax on the capital gain to net, after brokerage commissions, \$100,000 in cash to fund her intended gift.

Mrs. Ross later learns that it would be more cost effective to transfer just 2,500 shares worth \$100,000 directly to the charitable recipient. Because she does not sell the securities, no capital gains tax will be owed while she will be credited with the full value of the shares, and be entitled to a \$100,000 federal income tax deduction even though her cost basis in the stock was only \$37,500. She likes this idea so much that she decides to give the entire 2,800 shares she was going

to sell, thereby increasing the amount of her deductible gift to \$112,000.

“I’d like to give, but . . .

. . . I need to plan for my retirement.”

. . . I’m supporting an elderly parent.”

. . . I’m concerned about my family’s future financial security.”

. . . I’m helping my children (or grandchildren) fund their education.”

The responsibilities are different, but the concerns are the same: You feel unable to give because you need to maintain a certain level of income to meet your personal financial obligations.

Fortunately our tax code provides a number of ways that allow individuals to make significant charitable gifts while retaining fixed or variable income for themselves and/or another person for life or other period of time.

These gifts, sometimes referred to as “income gift plans,” can be arranged in cooperation with charitable interests and a donor’s financial services provider(s) such as banks, trust companies and financial advisors.

Tax savings

Cash and securities are most frequently used to fund income gift plans, although other property or assets can also be suitable in some cases.

As in the case of outright gifts, donors who give in this way—using property that has increased in value—will eliminate or

reduce capital gains tax that would be due if the donated assets were sold.

This means that income from the gift plan will then be based on the full value of the property donated, not the remaining net after payment of taxes.

Income considerations

If the income is paid to someone other than the donor, it will be included in the recipient's taxable income, not that of the donor.

If the income beneficiary is someone other than the donor or the donor's spouse, it is important to consult your tax advisor about whether any gift tax will be due. In most cases, lifetime gift tax exemption amounts are sufficient to offset any such tax.

Minimum gift levels and the amount of income received vary depending on the gift plan chosen, the age of the income recipient(s) and other factors. Where income will be received for one or more lifetimes, minimum ages may apply.

Deferring payments

In the case of younger donors it is possible to make gifts today while delaying the beginning of payments to a later date—for example, until retirement.

Because the funds are transferred on a permanent basis with only access to payments retained, donors who use any of these plans are entitled to a federal (and perhaps state) income tax deduction based on the full value

of the property used to fund the gift. The exact deduction is determined by the amount of payments, the anticipated time period over which they will be received and other factors.

Example 1: Mr. Hartness would like to make a generous gift to a charitable interest, but he does not want to sacrifice income he needs to help support his father. A friend tells Mr. Hartness that the beneficiary of an income gift plan need not be the donor. The friend also mentions that as the donor, Mr. Hartness would still receive a substantial income tax deduction. He consults with his advisors to verify this information, and is encouraged by what he learns.

Generous gift, generous care

With a \$100,000 life income gift, Mr. Hartness's father will receive a fixed income of 7.8 percent, or \$7,800, for life. In addition, the majority of the payments will be received free of tax, and the remaining amount will be taxed based on his father's lower tax bracket instead of being included in Mr. Hartness's taxable income. Mr. Hartness will also be entitled to an income tax charitable deduction of approximately \$65,000, and will be credited with the completion of a generous charitable gift.

Example 2: Mr. and Mrs. Proffit are concerned they may need to reduce the amount of their charitable gifts because their daughter will be starting college next year.

They are surprised to learn it is possible to arrange an income gift plan that lasts for a predetermined number of years, will pay income directly to their daughter and entitle them to a substantial tax deduction.

The Proffits decide to transfer \$150,000 to a trust that will last eight years and pay their daughter \$12,000 per year, which will be taxed to her, not them. They will be allowed to claim a tax deduction of approximately \$44,000 as a result of making their gift in this way and after eight years, the remainder of the trust (an estimated \$100,000) will be directed to charitable purposes as specified by the Proffits.

If the Proffits fund the trust with appreciated property, their financial benefits will be even greater, as they will not owe capital gains tax at the time of their gift.

The Proffits are delighted that they are able to make the charitable gift, reduce their tax bill and help pay for their daughter's education.

“I’d like to give, but... I don’t want to deprive my heirs of their inheritance.”

Many who would like to make significant charitable gifts may hesitate to do so because they are concerned about the impact a gift will have on the amount ultimately received by their children or other heirs.

Fortunately there are ways to make gifts while ensuring that loved ones still receive a generous inheritance. This can be accomplished by setting aside funds that generate income for charitable purposes for a period of time before being passed on to heirs.

Example: Mr. and Mrs. Browne would like to make a gift of \$250,000 over time but they would also like for their five teenaged grandchildren to receive \$100,000 each in approximately 10 years.

Their financial advisor suggests they fund a trust with \$500,000 that will pay \$25,000 per year for 10 years to fund their \$250,000 charitable commitment. At the end of the 10-year period, the trust will terminate and the remainder will be divided among their five grandchildren.

The Brownes decide to make their gift in this way. They are also pleased to learn that no gift tax will be due on the amount they use to fund the trust.

“I’d like to give, but . . . I need to conserve my capital.”

People who genuinely want to make charitable contributions may feel that giving up access to their assets would be an unacceptable financial risk.

Others who manage their assets themselves may prefer to make a gift either through a lifetime (*inter vivos*) trust or through a bequest in their will. Such gifts have historically been the source of some of the largest and most important contributions charities have ever received.

Example: Miss Gates, a retired educator with few close relatives, wishes she were able to make a substantial gift but she depends on her assets for retirement income.

In consultation with her attorney and representatives of one of her charitable interests, she is pleased to learn that after first providing for her loved ones from other sources, she can provide that whatever remains in her retirement account at the end of her lifetime be devoted to charitable purposes she designates.

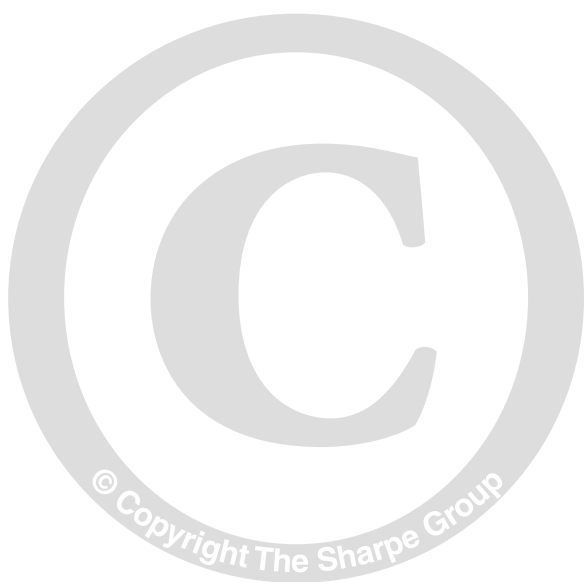
In this way she retains total access to her property for the remainder of her life. She is also pleased to learn that no taxes will be due on these amounts, as would be the case if she left these funds to non-charitable beneficiaries.

To be a philanthropist . . .

. . . carefully consider the gifts you ideally would like to make, think carefully about your personal financial needs and those of your loved ones, then consult with your advisors and representatives of charitable interests to explore alternative gift options that are available to help you achieve multiple goals.

Contact us if you would like more information about any of the gift options mentioned in this booklet. We will be pleased to assist you and your advisors as you consider the most effective ways to fulfill your charitable wishes.

The purpose of this publication is to provide general gift, estate, and financial planning information. It is not intended as legal, accounting, or other professional advice. For assistance in planning charitable gifts with tax and other financial implications, the services of appropriate advisors should be obtained. Consult an attorney for advice if your plans require revision of a will or other legal document. Tax deductions vary based on applicable federal discount rates, which can change on a monthly basis. Some opportunities may not be available in all states. ©MMXI RFSCO, Inc. All Rights Reserved.



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