



INDEPENDENT INVESTOR

Timely Insights for Your Financial Future

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Doing Good When Doing Well: Philanthropy and the Affluent Family

Affluent investors who are charitably inclined may have specific philanthropic and estate planning goals in mind, but may not be familiar with the many vehicles and trust structures available to help them implement their goals.

In order to choose the most advantageous charitable giving strategy, individuals and families must evaluate a number of factors, such as their need for current income, their desire to control and preserve assets during life and after death, their specific charitable intent, as well as important tax management issues. Charitable estate planning techniques can help achieve most if not all of these objectives. Donor-advised funds, family foundations, gift annuities and CRTs/CLTs round out the field of essential options that are available to individuals and their families.

Donor-Advised Funds--Offer Convenience and Flexibility

A donor-advised fund is a tax-advantaged charitable giving vehicle that offers individuals maximum flexibility to take tax deductions and recommend grants to charitable organizations. By definition, donor-advised funds are public charities under Section 501(c)(3) of the Internal Revenue Code, and contributions to such funds are tax deductible.

Donor-advised funds are particularly family friendly, as parents and children can consolidate their giving activities through a single fund account. In addition, children can be named as successors to a fund, ensuring the continuation of a family's giving legacy.

Another significant advantage of a donor-advised fund is its capacity to accept any one of a variety of assets as a charitable contribution. Checks/wire transfers, commercial paper, CDs, mutual fund shares, publicly traded securities, certain privately held securities, bonds and restricted stocks are all acceptable assets.

Donors are able to recommend how their contributions should be allocated among the available investment choices. As an added benefit, the account has the potential to grow over time--increasing the donor's giving power.

The convenience and administrative simplicity of a donor-advised fund allows donors to spread their grantmaking out over months or even years, in accordance with their own personal giving objectives. If you are considering a donor-advised fund, sunset rules, administrative fees, and management fees should be discussed before you invest.

Family Foundations--Building a Legacy, Reaping Tax Benefits

Family foundations offer an effective way to pursue philanthropic objectives, involve family members in charitable activities, and reap tax and estate planning efficiencies.

A family foundation derives its assets from the members of a single family, in which the donor and/or the donor's relatives play a significant role in governing and/or managing the foundation throughout its life. Aside from helping families channel their philanthropic ambitions, family foundations can form a legacy of community involvement and responsible citizenship for generations to come. And, as their founders soon realize, family foundations offer potential tax and estate planning benefits.

Private Foundations vs. Supporting Organizations

In general, there are two types of family foundations: private foundations and supporting organizations. Private foundations, the more common of the two, offer more flexibility and control (i.e., they can select and oversee their own Board of Directors and grantmaking decisions), while supporting organizations enjoy more favorable tax treatment. Please keep in mind, private foundations are heavily regulated and closely watched. The regulations contain control rules on oversight and minimum annual payouts. In addition, the cost of establishing, staffing, and keeping your private foundation legally compliant can be prohibitive.

Gifts made to either type of giving vehicle are generally tax deductible for the donor, yet these deductions differ depending on the foundation's structure, the type of property/asset contributed and the donor's income level. As a general rule, however, all gifts to a family foundation are removed from the donor's estate, thereby avoiding estate and/or gift taxes.

Balance Giving Goals and Financial Planning

While the tax deductions and/or transfer tax benefits associated with most charitable giving vehicles help reduce the cost of making charitable gifts, an individual's own income or wealth transfer needs often determine his or her ability to give. To address both goals, individuals may want to consider other charitable vehicles such as a charitable remainder trust, a charitable lead trust or a gift annuity.

A charitable remainder trust (CRT) can guarantee an income stream for you and your spouse, while minimizing current income taxes since you generally may deduct the fair market value of the charity's remainder interest in the CRT in the calendar year the CRT is funded. A CRT can also be an integral part of a family business succession plan. Lifetime stock transfers can be made to a CRT and subsequently redeemed by the closely held corporation. The redemption funds the CRT with tax-free monies that subsequently can be invested to provide an income stream to the business owner and spouse. CRT's are set up to provide income to a beneficiary for a specified period of time. Once the period expires, the remainder of the trust is transferred to the designated charities.

A charitable lead trust allows you to place in trust assets that will be left to your heirs; however, you specify a set number of years during which a fixed percentage of the value of the assets in the trust will be paid to a charity. You pay discounted gift taxes on assets transferred to the trust and do not receive a charitable deduction. However, your heirs ultimately can receive trust assets free of estate taxes. A charitable gift annuity (CGA) is in some respects even more cost and tax effective than CRTs/CLTs. CGAs have no administrative or setup fees. Virtually any asset can be used to fund a CGA, and the charitable organization itself guarantees either immediate or deferred lifetime payments to the donor. The typical tax deduction available in the year assets are transferred to a CGA ranges from 30% to 45% of the fair market value of the asset.

Including charitable giving strategies in your estate plan can be an effective way for you and your family to enjoy an income stream during your lives, earn tax savings and maintain a significant degree of control over assets--all while fulfilling your charitable goals. Please note, taxes will be due on the income stream provided.

If you are creating a charitable giving plan, consider seeking the guidance of an attorney, accountant or other trusted professional who is familiar with tax laws and legal intricacies. Obtaining assistance early on--and retaining such counsel on a continuing basis--is key to making responsible decisions.

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