Common Ground
helping people move from crisis to hope

Planned Giving Guide

Supporting a Charitable Cause or Organization

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2nd Edition

Courtesy of
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Charitable Giving

Making a charitable contribution is a great way to "give back" as you age and accumulate wealth. It lets you invest in causes and organizations that you care about. A charitable contribution can also help reduce your overall tax burden. We have all heard the saying "it is better to give than receive;" with proper planning both can be accomplished.

How can we help you choose the right type of donation? There are many ways to make charitable contributions, all of which, ultimately, will have a positive impact on a charitable cause or group. The strategy you choose will depend upon your individual goals, tax and financial plan.

One way to give is to make a direct contribution of cash, appreciated stock, or property. This can be done during your lifetime as a gift and reduce overall taxes. You may also want to make a bequest in your will or personal trust, which is a way to have your charitable goals and memories live on. Another way to give is to make the charity the beneficiary of a retirement account. You can also use special charitable trusts to make a current or future contribution. These are just a few of the options available.

The tax implications of charitable giving are very complex and ultimately depend upon your individual situation. If you are thinking about making a charitable donation, this guide will provide you with general information and strategies to consider. Before implementing any of the strategies, you should consult with a tax or financial planning professional to learn how it may impact your financial and tax plan.

One of our main goals is to educate our clients and the community as a whole. Charitable giving is only one of the areas we teach about. Another goal we have is to do the right thing and to help clients do the right thing. By making a contribution to a charity, you are doing the "right thing." We are here to educate and help you reach that goal, while also helping you to potentially reduce your tax burden—it's the right thing to do!

Best Regards,

Leon LaBrecque + Associates

"It's not how much we give but how much love we put into giving."

Mother Teresa

Disclaimer

This book is intended for informational purposes only. Best efforts were used to ensure the information contained in this book is accurate; however, the author and every person involved in the creation of this book disclaim any warranty as to the accuracy or completeness of its contents. This book is not a substitute for obtaining legal, financial and other professional advice as the contents of the book apply to your individual situation. It is recommended you obtain legal, financial and other advice or assistance before acting on any information contained in this book. The writer and every person involved in the creation of this book disclaim any liability arising from contract, negligence, or any other cause of action, to any party, for the book's contents or any consequences arising from its use.

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Direct Unstructured Giving

Cash

There are many benefits of donating with cash. First, it provides the maximum charitable income *tax deduction*[1] available under Federal tax laws. Additionally cash is the easiest gift to make. Also, the receiving organization can use the funds immediately. Writing a check to an organization provides documentation for the transaction.

Appreciated Stock

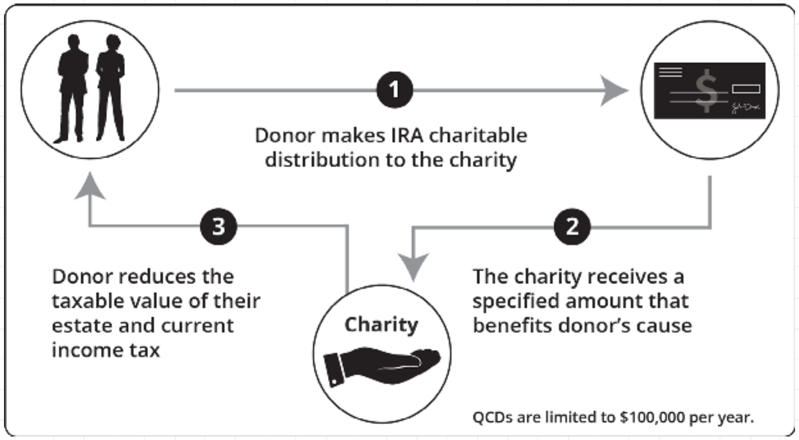
If you own securities in a *brokerage account*[2], these shares can often be transferred to a charity of your choice. Donating appreciated stock can be more tax efficient than giving cash due to the avoidance of *capital gains tax*[3]. Also, stock could potentially gain value for the charity. You may take a charitable income tax deduction for the full fair market value of the stock on the date of transferring. The more appreciation the securities have, the greater the tax deduction.

Case Study: Angela is a 71 year old woman who bought some shares of stock many years ago for $2,000. It is now worth $10,000. Angela is in the 25% tax bracket, which means she would pay 15% tax on capital gains. She receives a pension, Social Security, and takes a $10,000 Required Minimum Distribution (RMD) from her IRA. Angela is charitably inclined and desires to make a $10,000 gift to her charity. An outright gift of her appreciated stock would result in a charitable income tax deduction of $10,000. In addition, Angela will owe no capital gains tax on the $8,000 of appreciation, thus avoiding $1,200 in capital gains tax. In her 25% tax bracket, her $10,000 gift reduces her taxable income by $10,000.

Qualified Charitable Distribution

A Qualified Charitable Distribution (QCD) is a direct distribution from your Individual Retirement Account (IRA) to a charity. A QCD is excluded from income if it meets the following requirements:

- It is made after the donor reaches the age of 70½;
- It is made from an IRA, Roth IRA, or Simple IRA; and
- It is made to an eligible charity.



Case Study: If Angela gave her Required Minimum Distribution (RMD) of $10,000 to her charity, she would reduce her taxable income by $10,000, saving $2,500 of federal income taxes and up to $425 in Michigan income taxes[4], for a total of about $2,925. **The QCD is a direct reduction of taxable income.** If Angela also sold her appreciated stock mentioned above, she would only pay 15% capital gains tax[5].

Charitable Bequests (after death/estate)

A charitable bequest is a donation that is provided through your will or personal trust. This donation could be almost anything: real estate, personal property, securities, or cash. There is a certain language the donor must use when making charitable bequests. The donor must state who the donation is for and the amount they are donating. The donor may also direct how the donation is to be used. Charitable bequests can provide an estate tax deduction resulting in a reduction to your taxable estate.

Here is some sample language for making a charitable bequest in your will or personal trust:

"I give the sum of $5,000 to Common Ground to use as the organization wishes with no restrictions."

"I give the sum of $5,000 to Common Ground to be used for (*state specific purpose*)."

Tax Implications of Direct Unstructured Giving

Donation Type	Deduction	Limitation (% of AGI)
Cash	Cost Basis	50%
Short-Term Capital Gain Property	Cost Basis	50%
Long-Term Capital Gain Property	Fair Market Value	30%
Personal Property used by Organization	Fair Market Value	30%
Personal Property not used by Organization	Cost Basis	50%

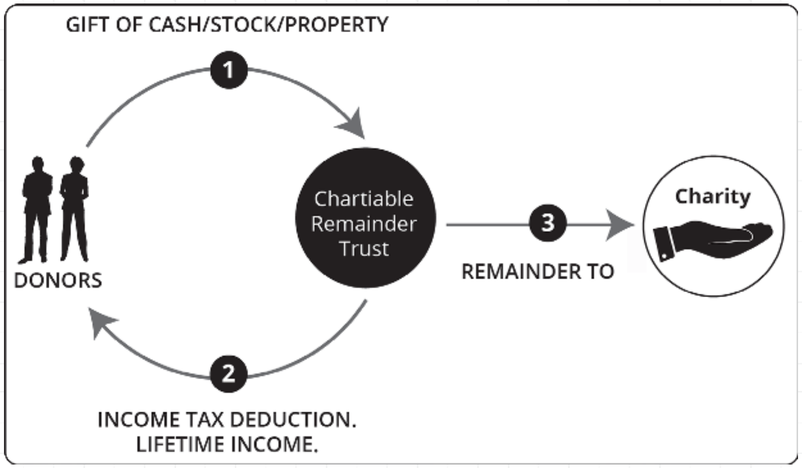
Source: irs.gov

Structured Giving Using Charitable Trusts

A trust is a fund that holds the assets of a person (grantor) for their beneficiaries. A trust is a way to protect one's assets and minimalize estate taxes and probate costs while keeping a beneficiary in mind. Assets that are transferred into a trust are owned by the trust, not the grantor. Charitable trusts are a way of using "special" trusts to donate to a charity. There are different types of charitable trusts: charitable remainder trusts, charitable remainder unitrusts, charitable remainder annuity trusts and charitable lead trusts.

Charitable Remainder Trust (CRT)

A charitable remainder trust pays individual *beneficiaries*[6] an annual amount for their lives or a fixed term of up to 20 years. An income tax deduction that represents the present value of the eventual gift to a charity can be claimed through a charitable remainder trust. The minimum payout rate is 5% and maximum payout rate is 50%. The tax advantages are that the grantor avoids a capital gains tax on the donated assets and the grantor can claim a tax deduction for the fair market value of the remainder interest that the trust earned throughout the life of the trust.



Income tax deductions to Remainder Trusts are based on the age of the donor(s) and an interest rate specified by the IRS, called the §7520 rate.

Charitable Remainder Unitrust (CRUT)

A charitable remainder unitrust pays a fixed percentage of the annual value of trust assets to the income beneficiary (minimum 5%). Unitrusts are revalued annually, and if the *principal*[7] in the trust appreciates, payments will be correspondingly larger. The risk is that if the principal depreciates, payments will be smaller. The payment must equal a fixed percentage of the net *fair-market value*[8] of the trust assets as valued annually. Unitrusts produce high amounts of income but small tax deductions. Typically, donors under the age of 65 prefer CRUT because they provide more opportunity for growth. The death of the donor results in the remaining balance of the assets being donated to a charity.

Case Study: Ms. Doe owns $100,000 of mutual fund shares she purchased many years ago for $25,000. She only earns a 1% dividend yield on these shares and knows she can earn more elsewhere. However, she knows that upon selling these shares she will be subject to capital gains tax. To achieve her objective, she can contribute the shares to a unitrust and select a 5% payout rate. Her distribution immediately increases from $1,000 to $5,000 per year and will grow over time if trust assets appreciate in value. Additionally, the gift results in a charitable deduction of $30,008.64* which, in her 25% tax bracket, translates to $7,502.16. Also, she will avoid potential capital gains tax on the $75,000 ($11,250.00). This results in a total tax savings of $18,752.16.

** Charitable deduction based upon a 1.8% IRS discount rate.*

Charitable Remainder Annuity Trust (CRAT)

Similar to a charitable remainder unitrust but annual payments are fixed. This means that the payment amount is the same every year based on a percent of assets in the trust. The assets are not revalued every year. Trust principal is normally invested for total return and grows tax free. It can be invested in a variety of investment vehicles. Typically donors over the age of 65 prefer CRAT because they receive a consistent stream of income. When the donor dies the remainder of the trust is transferred to charity.

Charitable Lead Trust (CLT)

A charitable lead trust is the reverse of the charitable remainder trust. The only difference is the charity is the income beneficiary and the remainder goes to the named individual beneficiaries. These types of trusts have the same tax benefits as the charitable remainder trust.

Case Study: Ms. Doe creates a charitable lead trust, funding it with securities currently valued at $100,000 (acquired years ago for $25,000) and directs that the trust pay the charity $5,000 annually for 15 years. At the termination of the trust, the assets are to be distributed to her children. Under the Treasury tables, the present value of the stream of income the charity is to receive from the trust is valued at $57,391.11** and her children's remainder interest is valued at $42,608.89**.

Assume that at Ms. Doe's death the trust assets after 15 years have appreciated to $300,000. For purposes of determining her transfer-tax liability, only the value of the gift to the children at the time the trust was created ($42,608.89) will be taken into account. The balance $257,391.11 will escape transfer tax.

*** Based upon 1.8 % IRS Discount Rate*

Indirect Giving

Donor Advised Funds

A donor advised fund is a charitable giving entity where an individual, family or corporation makes a tax-deductible contribution of personal assets to a charity and any time after the donation can recommend grant distribution to qualified charitable organizations. It has more favorable tax treatment than private foundations. Donating appreciated securities does not result in a capital gains tax. A single contribution can benefit multiple charities. Finally, the fund also allows for a variety of investment options that could potentially grow over time.

Private Foundation

A private foundation is a nonprofit organization that is tax exempt. They are set up and funded by individuals, groups of individuals, and businesses. Donors can receive income tax deductions, however there are limits. The donor can also maintain some control over how the contributions will be used.

Structured Giving Through an Institution

Charitable Annuity

In a charitable annuity the donor gives cash or securities to a charitable organization. The organization then makes *annuity payments*[9] to the donor. The donor then receives a tax deduction. Finally after the death of the donor the charitable organization keeps the remainder of the assets donated.

Pooled Income Fund

A pooled income fund is a fund run by a nonprofit organization where by individuals pool their contributions and invest together. These are similar to a CRT (charitable remainder trust) except the charity administers the fund for a fee.

Endowment

This is where a donor makes a donation to a qualifying institution and places restrictions on what the funds may be used for.

Glossary

[1] **Tax Deduction:** A tax deduction is a reduction in a person's income that is to be taxed. Less income will be taxed which will result in a lower tax liability.

[2] **Brokerage Account:** A brokerage account is an account where your cash can be converted into a number of different types of investments such as stocks, bonds or mutual funds.

[3] **Capital Gains Tax:** When someone sells a capital asset and recognized a gain on that asset the gain may be taxed depending on the type of asset and the person's level of income.

[4] Michigan either fully or partially taxes IRA distributions (along with pension and Social Security income). A QCD reduces Adjusted Gross Income, and thus may reduce Michigan taxable income.

[5] Plus Michigan tax.

[6] **Beneficiaries:** Beneficiaries are people who are to inherit or receive the profits from certain assets such as trusts, 401Ks or IRAs.

[7] **Principal Amount:** The principal amount of an asset or liability is the face amount excluding interest. Examples: the amount borrowed on a loan, face value of a bond, or amount invested in trust.

[8] **Fair-Market Value:** The fair market value of an asset is the asset's value in present time.

[9] **Annuity Payments:** Annuity payments are equal payments made at fixed intervals, usually every year.

Donations

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