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Gift Plans and Strategies Every Advisor Can Suggest to Clients

Helping clients make informed choices for themselves, family, friends and community is sometimes a winding road of decisions. Often it is stimulated by a situational happening, i.e. a stock takeover or a pending sale of assets. At other times it is a planned strategy for helping a worthy charity in a major way. Perhaps it is when your clients reach a point in their lives where they focus less on material accumulations and more on creating an impact in their community.

Planned gift strategies often make it possible for individuals to lead a more fruitful economic life in their retirement years, as well as, having the knowledge the community will benefit in a major way upon their passing. Remember planned gift strategies are not only for "senior citizens" because they can often be used to increase retirement assets.

Helping individuals plan their year end charitable gifts combines an understanding of the tax tables, the benefits received from a charitable income tax deduction, and various charitable gift techniques. According to IRS statistics 68% of Americans do not itemize their deductions but most *major* charitable gifts exceed the standard deduction amount; therefore, donors should itemize deductions to take full advantage of the government bonus received from the charitable contribution deduction.

Always make clients aware there are gifts other than cash i.e, stock, mutual funds, bonds of all types (commercial, savings bonds and municipal), real estate (commercial, personal residences, condos, vacation homes), and personal property.

A. It all begins with the desire to help and the tax tables

If your 2010 taxable income is.....Your gift savings tax bracket is....					
Single	$8,375 - $34,000	$34,000 - $82,400	$82,400 - $171,850	$171,850 - $373,650	$373,650+
Married	$16,750 - $68,000	$68,000 - $137,300	$137,300 - $209,250	$209,250 - $373,650	$373,650+
Saving bracket	15.00%	25.00%	28.00%	33.00%	35.00%

B. You can leverage a charitable deduction to offset capital gains

Offset Capital Gains with a Charitable Deduction			
Tax Bracket	**Capital Gain Bracket**	**Charitable Gift**	**Capital Gain Offset**
25.00%	**15.00%**	**$1.00**	**$1.66**
28.00%	**15.00%**	**$1.00**	**$1.86**
33.00%	**15.00%**	**$1.00**	**$2.20**
35.00%	**15.00%**	**$1.00**	**$2.33**
Tax Bracket divided by the Capital Gain Bracket = Gain offset by a $1.00 of charitable gift.			
Gain divided by Tax Bracket = Gift to offset the gain			
For additional benefits add the state income and capital gains bracket, and any benefit of a charitable deduction on the state income tax return. Assumes the charitable deduction amount is fully deductible. 15% tax bracket payers pay a 10% capital gains tax. The 3% reduction in all deductions is not in effect for 2010. Maximum reduction in charitable deductions is 80%. A 28% top rate applies to collectibles. A 25% rate applies to real estate attributed to depreciation. Short term gains are taxed at the donors highest tax bracket.			

C. Itemize or standard deduction

When to take the standard deduction. How high do deductions have to be to be useful?				
	Single	***Joint***	***Head of Households***	***Married filling separately***
Basic	***$5,700***	***$11,400***	***$8,400***	***$5,700***
Over 65	***$7,100***	***$12,500(one)*** ***$13,600(two)***	***$9,800***	***$6,800***
Blind	***$7,100***	***$12,500(one)*** ***$13,600(two)***	***$9,800***	***$6,800***
Over 65 & blind	***$8,500***	***$13,600(one)*** ***$15,800(two)***	***$11,200***	***$7,900***

Technique 1: **Give appreciated long-term stock, mutual funds or other investments (held one year and one day) instead of cash when you.....**

A) want to sell a stock that has appreciated because you think it will decrease in value;

B) you are over concentrated in one investment and need to change your asset allocation;

C) you have a very large long-term capital gain in a short time period (but more than a year and one day).

Question 1: Should you give cash, sell stock and gift the cash, or give the securities outright?

	Option A Give $5,000 in Cash	Option B Sell Securities & Give Cash	Option C Give Securities Outright
Gift Value	$5,000	$5,000	$5,000
Ordinary income tax savings @ 25%	$1,250	$1,250	$1,250
Capital gains tax saved or paid, assuming 15% tax rate and $4,000 gain	$0	$600 paid	$600 saved
Total net tax savings	$1,250	$650	$1,850

Technique 1a: **Give appreciated long-term stock, mutual funds or other investments (held one year and one day) instead of cash when you want to sell the stock or diversify your investments.**

Question 2: Should you give stocks that have appreciated a little or stocks that have appreciated significantly?

Investment A has a cost basis of $500 and a value of $5,000.

Investment B has a cost basis of $4,000 and a value of $5,000.

	Gift of Investment A Assuming 15% Capital Gains Tax	Gift of Investment B Assuming 15% Capital Gains Tax	Difference
Gift value	$5,000	$5,000	$0
Ordinary income tax savings @ 25%	$1,250	$1,250	$0
Capital gains tax saved @ 15%	(A = gain of $4,500) $675	(B = gain of $1,000) $150	A) $525 more
Total tax saved	$1,925	$1,400	A) $525 more
After tax cost of gift	$3,075	$3,600	B) $525 less

Technique 2:

a. **Donate appreciated stock in Corporation ABC.**
b. **Use the deduction to offset capital gains on the sale of additional Corporation ABC stock.**
c. **Then use the cash proceeds from the sale to purchase additional stock in another security or buy a certificate of deposit.**

Capital Gain Offset Strategy allows individuals to remain tax neutral.

Offset Capital Gains with a Charitable Deduction			
Tax Bracket	Capital Gain Bracket	Charitable Gift	Capital Gain Offset
25.00%	15.00%	$1.00	$1.66
28.00%	15.00%	$1.00	$1.86
33.00%	15.00%	$1.00	$2.20
35.00%	15.00%	$1.00	$2.33
Tax Bracket divided by the Capital Gain Bracket = Gain offset by a $1.00 of charitable gift.			
Gain divided by Tax Bracket = Gift to offset the gain			
For additional benefits add the state income and capital gains bracket, and any benefit of a charitable deduction on the state income tax return. Assumes the charitable deduction amount is fully deductible. 15% tax bracket payers pay a 10% capital gains tax. The 3% reduction in all deductions begins with an adjusted gross income of $166,800 in 2009. Maximum reduction in charitable deductions is 80%.			

Example: **Tom and Betty own 3,000 share of Merck valued at $35.00 per share (total value $105,000) for which they paid $6.00 per share (cost $18,000) many years ago. They are in the 28% tax bracket. If they sold all their stock they would have an $87,000 gain and a federal capital gains tax at 15% or $13,050 reducing their capital to $91,950. They wish to support a local charity and their long term goal is to diversify their investment portfolio.**

Solution: **Take 1,000 shares and gift them outright to charity creating a $35,000 fair market value income tax charitable deduction. They also avoid the capital gains tax on the $29,000 gain associated with the 1,000 shares. They use the $35,000 deduction to offset the sale of additional shares. In their 28% tax bracket they can offset $1.86 of capital gain. How many share could they sell to remain tax neutral?**

Answer: **The total gain offset strategy with a gift of 1,000 share gift is computed as follows: $1.86 * $35,000 = $65,100, with the stock selling at $35 per share and a gain of $29 per share they could sell up to 2,244 shares ($65,100/$29) and remain tax neutral which is more share they currently own.**

Technique 3: **Donate appreciated stock in Corporation ABC and use the deduction to offset income taxes on the withdrawal of cash from an IRA.**
Or use the IRA cash withdrawal to repurchase stock in Corporation ABC to increase the cost basis in the stock.

Deduction Order

The deduction order for most donors is fairly straightforward. He/ she/they deducts cash gifts first and then appreciated gifts subject to the 50% and 30% gift limits. However, it is possible that the deduction order could be fairly sophisticated. Deduction order as a percent of contribution base could be as follows:

1. Cash gifts to 50% AGI limit.

2. Appreciated gifts elected to be deducted at cost basis to 50% limit.

3. Unrelated use tangible personal property deducted at cost basis to 50% limit.

4. Short-term capital gain deducted at cost basis to 50% limit.

5. Appreciated stock or land deducted at fair market value to 30% limit.

6. Gifts "for the use of" a charity deducted to 30% limit.

7. Cash to private foundation deducted at 30% limit.

8. Public stock to private foundation deducted at fair market value to 20% limit.

9. Land or private stock to private foundation at cost basis to 20% limit.

10. Carry forwards of 50% limit gifts.

11. Carry forwards of 30% limit cash gifts to private foundations.

12. Carry forwards of 30% appreciated property gifts to public foundations.

13. Carry forwards of 20% limit gifts to private foundations.

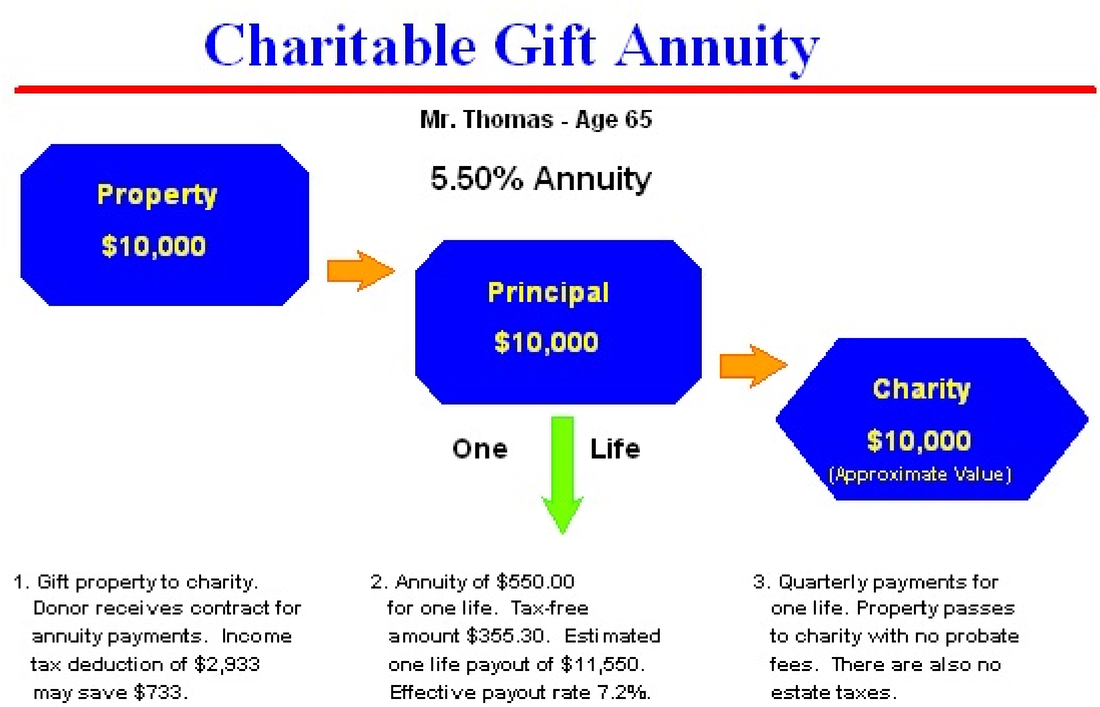
While the list can be lengthy, for donors who give only to public charities, the rules are reasonably straightforward. Cash gifts are deducted first. Appreciated gifts are deducted next. If there is an available 50% or 30% limit, then carry forwards of cash and appreciated property are deducted in order, with the oldest carry-forward gifts deducted first.

***Technique 4*: Establish a charitable gift annuity and receive a charitable deduction and use the deduction to offset capital gains on stock sold in donor's name; will result in a charitable deduction to offset the gain and increased income for the donor.**

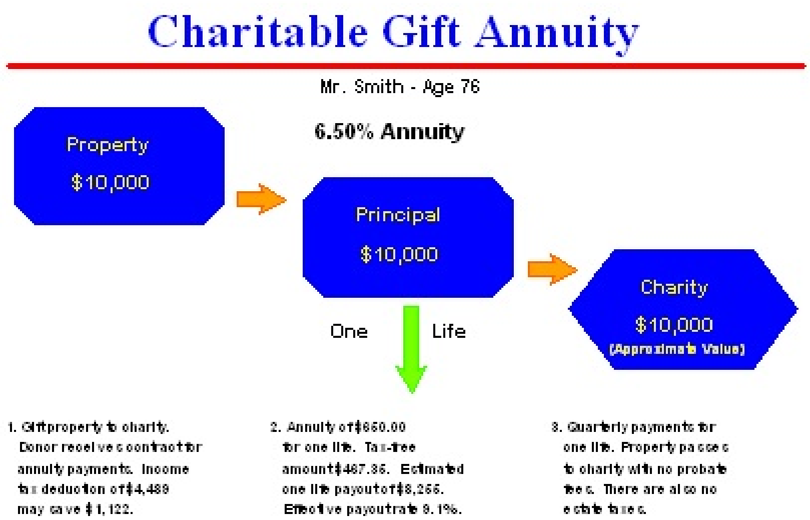
Note: All gift annuity examples are based upon the rates effective July 1, 2010

Practical examples for a $10,000 charitable gift annuity with donor in 25% bracket, deduction based on the May 2010 AFR of 3.20%

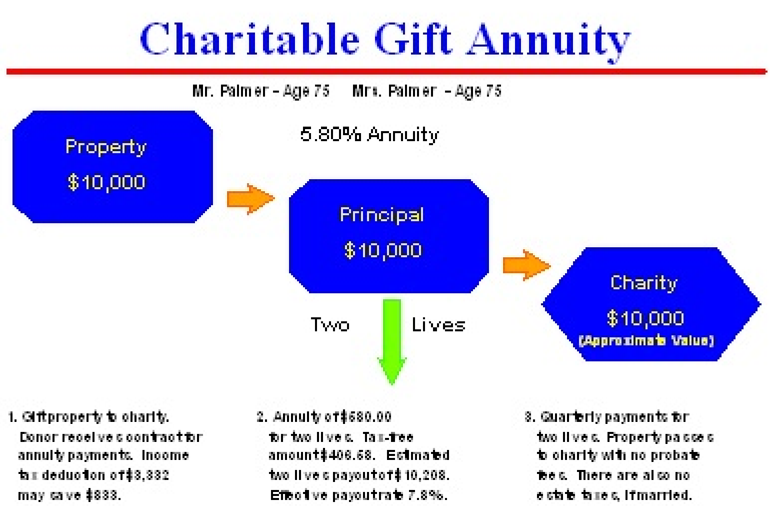
1) a 65 year old donor establishes a charitable gift annuity agreement with 5.50% payment rate with quarterly payments. The charitable deduction is $2,933 which offsets $4,868 ($1.66*$2,933) in capital gains.



2) a 76 year old donor establishes a $10,000 charitable gift annuity agreement with 6.50% quarterly payments, charitable deduction is $4,489 which offsets $7,551 ($1.66*$4,489) in capital gains.



3) two donors aged 75/75 establish a charitable gift annuity agreement with 5.80% payments, charitable deduction is $3,332 which offsets $5,531 ($1.66*$3,332) in capital gains.

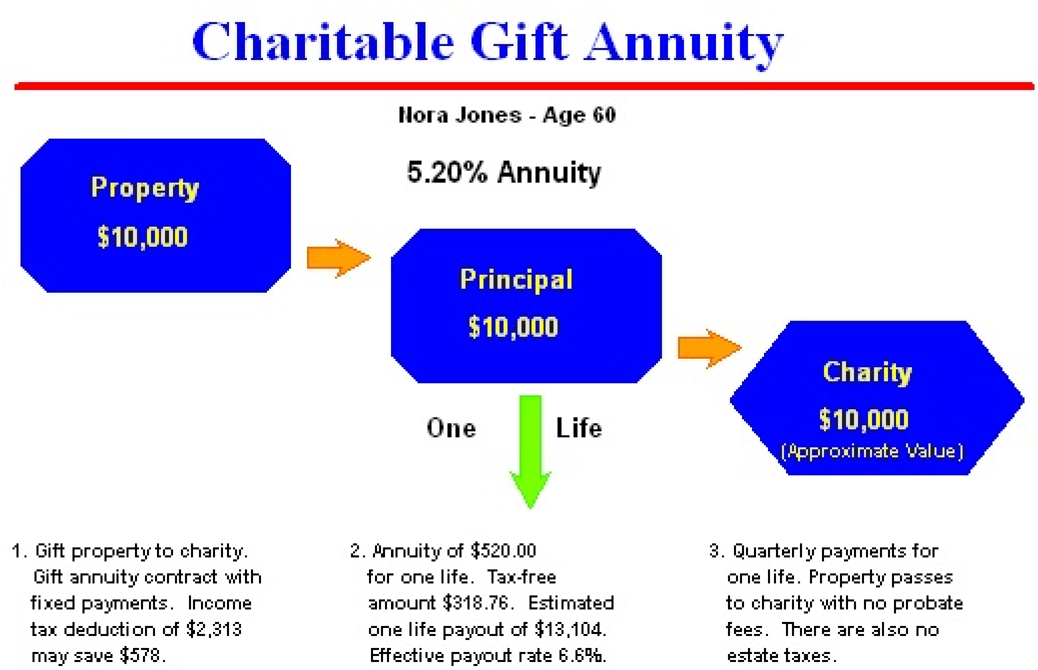


***Technique 5*:** **Establish a gift annuity for another person. Donor receives the income tax deduction while the beneficiary receives income at a tax preferred rate. Donor should use cash.**

Donor may use appreciated securities but they must report both a partial capital gain which may be offset in whole or in part by the income tax deduction. The net effect may be reduced tax payments or tax relief.

1) an 80 year old mother establishes a $10,000 charitable gift annuity agreement with a 5.20% fixed and guaranteed quarterly payment for the benefit of her 60 year old daughter. Income tax deduction $2,313 for mother, daughter receives $520.00 with $318.76 tax-free until 2032. No gift tax as the irrevocable life income interest is less than $13,000. IRS form 709 gift tax data is $7,687 which is less than the annual $13,000 gift exclusion.

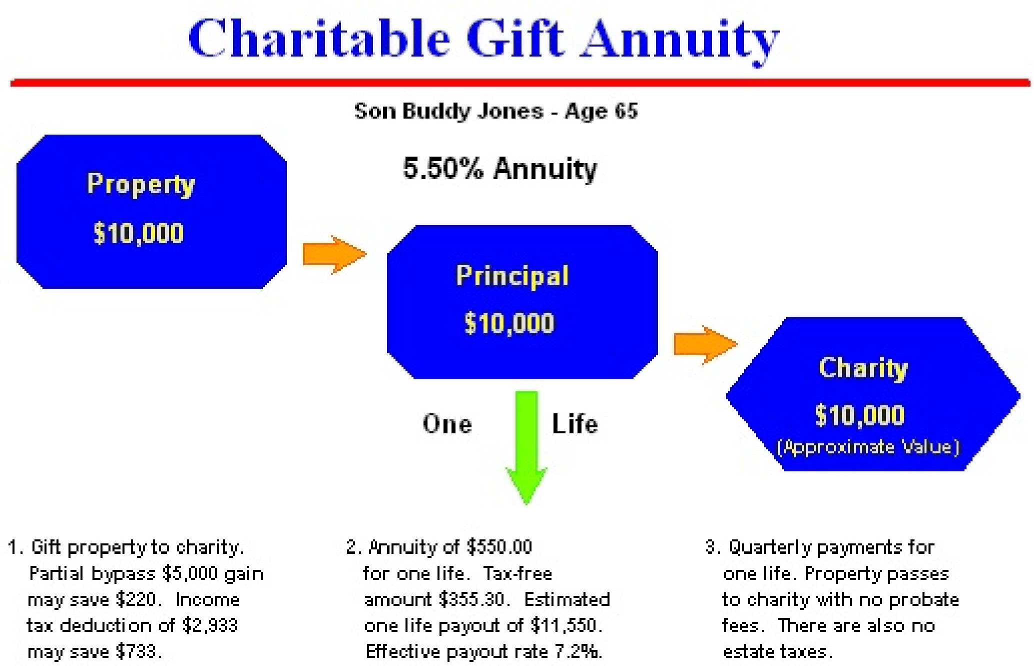
Donor could use deduction to offset capital gain on sale of stock in the amount of $3,839 ($1.66 * $2,313).



2) an 80 year old mother establishes a gift annuity with $10,000 in stock (cost basis $5,000) a with a 5.50% quarterly payment for the benefit of a 65 year old son. Income tax deduction $2,933 for mother. In the 25% income tax bracket this deduction would completely offset $4,868 in total capital gains if the mother itemizes her deductions.

Son receives $550.00 with $355.30 income tax-free. Mother must report a $3,533 in capital gains which is the capital gain associated with the life income interest of son. The income tax deduction of $2,933 offsets up to $4,868 in capital gains. Since the tax savings for the deduction ($2,933 * 25% = $733) is greater than the tax liability for the gain ($3,533 * 15% = $529) the net effect is no capital gains tax.

The mother's present interest value for the gift to the son is $7,067 and must be reported on IRS Form 709 if *total* gifts to son are over $13,000, even if no gift tax will be paid.



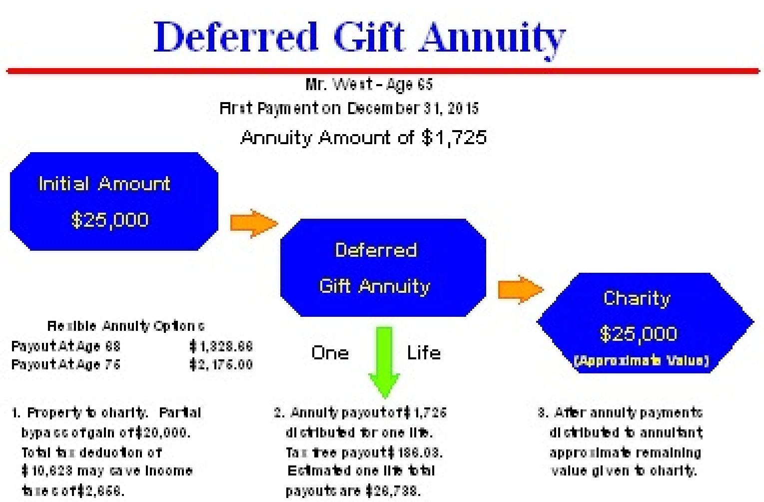
Technique 6: **Convert savings bonds into a Flexible Deferred Retirement Income Charitable Gift Annuity.**

A 65 year old retiree with adequate income and a significant IRA balance has $50,000 in US Savings Bonds. The interest on the bonds will be taxed when the bonds are cashed or the individual dies. The individual wishes to convert the bonds into a future income. Savings bond conversions to HH bonds are no longer allowed by the US Treasury.

On June 1, 2010 the donor redeems $5,000 in US Savings Bonds issued in June 1983 at a cost of $2,500. Redemption value is $10,236, which includes $7,736 in accumulated interest. The bonds reach final maturity in June, 2013 when they will no longer earn interest. Consult the web site: www.savingsbonds.gov to determine the value of any U.S. savings bond.

To offset the income tax on the $7,736 in accumulated and reportable interest the donor donates $25,000 in appreciated securities (cost basis $5,000) to a flexible deferred retirement charitable gift annuity. The agreement provides payments to begin as early as age 68 and as late as age 75 with a target annuity date of age 71. The charitable deduction for the deferred annuity agreement equals $10,626 which results in a complete offset of the reportable interest on the saving bond redemption.

The age 68 payment rate is 5.31% fixed and guaranteed for life. The payment rate for the target date in 2015 (age 71) is 6.90%, and the payment rate increases to 8.70 % for age 75.



***Technique 7*:** **Bargain sale stock or other property to charity. Donor receives cash plus a charitable contribution deduction. Donor must pay a capital gains tax on the appreciation associated with the cash received. Transaction is completed commission free. Charitable deduction may offset most or all of the capital gains tax.**

Donor has one share of highly appreciated Berkshire Hathaway class A stock currently valued at $106,000 with a cost basis of $10,000. Donor would like to make a $25,000 gift to charity and is willing to sell one share of the BRK-A stock to charity for $25,000. The cost basis is pro-rated between the gift portion and the sale portion. $10,000 of the cost basis is attributed to the $25,000 cash received resulting in a capital gain of $90,000.

The donor receives a charitable contribution deduction of $25,000 for the gift to the charity. The capital gain of $73,358 is taxed at 15% resulting in a tax due of $11,004.

The charitable contribution deduction for this 33% taxpayer saves $8,250 in current income taxes. The net tax savings is $ -2,757 which is subtracted from the $81,000 cash to give the donor an economic value of $78,246.

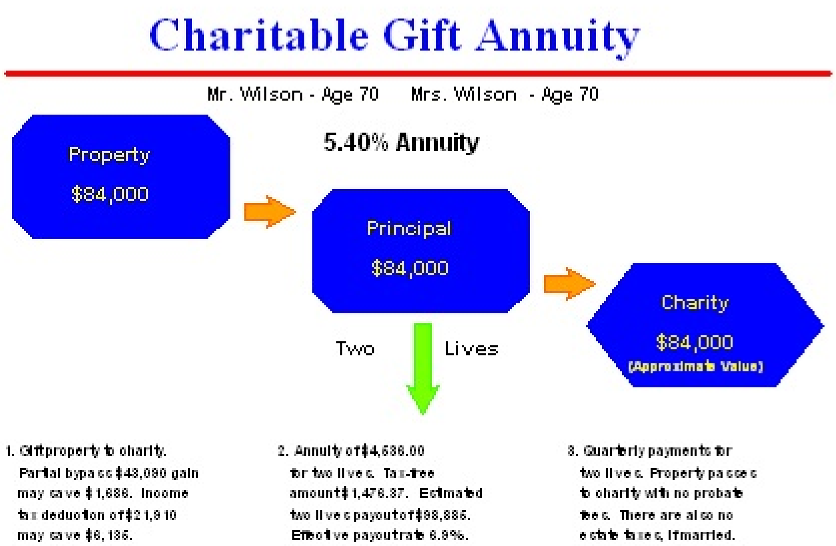
Using the same facts the donor would pay zero taxes when he/she receives $75,0891 in cash and makes a $30,911 gift to the charity. The tax liability of $10,201 is offset completely by the tax savings of $10,201 generated by the $30,911 charitable deduction.

***Technique 8*:** **Substitute charitable gift annuity income for stock dividends and make a significant outright gift to your favorite charity.**

Donors aged 70/70 have $154,000 (cost basis $75,000) in 2,200 shares of ExxonMobil stock (current price $70 per share) paying a 2.10% dividend or $3,872 per year before taxes and $3,291 after taxes at 15%. The donors have seen the stock value vary greatly over the last 10 years and it has appreciated significantly in the last few years. They are now retired and looking to diversify their invested assets to provide more fixed retirement income.

The donors also wish to help their local Hospital with the new Cardiac Center because of a family experience with the hospital and heart disease. They would like to make a leadership gift but fear it will significantly reduce their retirement income.

***Solution*: The donors separate the stock into two parts: Part one of 1,000 shares (value $70,000) is gifted outright to the Hospital. Part two composed of 1,200 shares of stock (value $84,000) is used to fund a two-life gift annuity. The first $70,000 part is gifted outright to the hospital. The second $84,000 part is used to establish a two-life charitable gift annuity paying a fixed guaranteed lifetime payment of 5.40% or an annual before tax income of $4,536. The after tax income computed for both the ordinary income (28%) portion and the capital gains (15%) portion of their payment results in an after tax income of $3,879. This represents a small increase in their annual retirement income plus they receive the impact of the current tax savings.**



In addition to the guaranteed income they receive two income tax deductions. The first tax deduction is for the full fair market value of their outright $70,000 gift and the second deduction is a partial deduction for the gift annuity they established in the amount of $21,910 (AFR 3.20%). The total tax savings of $91,910 spread over a few years result in total income tax savings, the government bonus for being charitable today, of $25,734 (28% bracket).

The deduction limit for gifts of appreciated property is 30% of Adjusted Gross Income (AGI), donors must take the deduction in the year of the gift and may use five additional years to exhaust the deductible amount. The donors take the first year bonus and use it to travel to Australia to see their new grandchild.

Gift Annuity

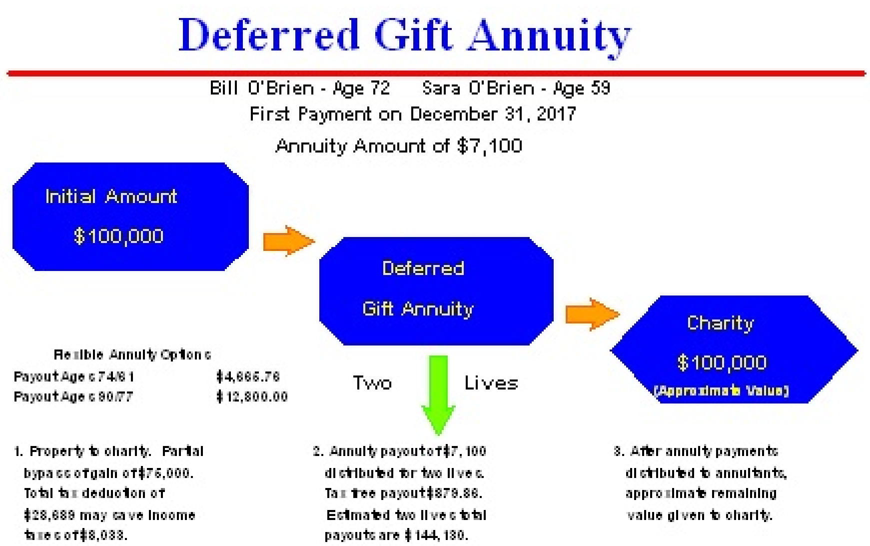
Prepared For Mr. and Mrs. Wilson

Expectancy	21.8 Years
Income Tax Deduction	$21,910
Annuity Payout	$4,536.00
Exclusion Ratio	66.8%
Tax Free Payout	$1,476.37
Effective rate	6.92%

Technique 9: Lifetime Partnership or May/December Gift Annuity

When an older individual has a much younger spouse and they are concerned about the preservation of income for the survivor consider a deferred gift annuity. Often the couple does not need the modest income from a current asset and would much rather provide a guaranteed lifetime income for the younger spouse.

Solution: **Establish a flexible deferred annuity which will be turned on upon the death of the older spouse for the benefit of the younger spouse.**



The donor receives the charitable contribution deduction for about 30% of the gift amount.

Either beneficiary can turn on the payment at any time between ages 74 to 90 for the older donor or 61 and 77 for the younger spouse. The target payment date establishes the value for the charitable deduction. The target payment rate which in the above example is 7.10% but if the annuity is received earlier than the target payment date the annuity is reduced and likewise if the payment comes after the target date the payment is increased.

The above annuity example was funded with appreciated stock and there was partial avoidance of any capital gains tax with the balance taxed as the payments are received.

Often the value of the charitable deduction is more beneficial to donors than an immediate increase in income.

Technique 10: Beneficiary designations from Retirement Plans and Life Insurance

Retirement Accounts: Clients should also consider giving assets to charity that would otherwise cost their heirs more to inherit. The best assets to give are those that produce "Income in Respect of the Decedent" or IRD income. These assets are not only included in the estate of the decedent for estate tax purposes but the assets are also partially or entirely taxable for income tax purposes when received by heirs.

Ask the question: "Would you prefer that a significant portion of this plan balance, from 50% to 80% perhaps, be paid in taxes or would you prefer the entire plan balance go to one or more of your favored charities."

Saving bonds, fixed annuities, and variable annuities also produce IRD income.

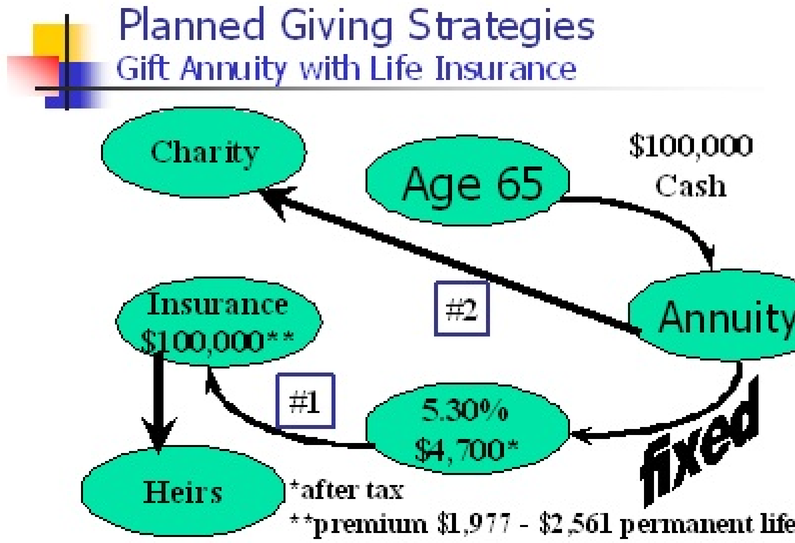
Life Insurance: Donor may designate one or more charities as beneficiaries of all or a portion of their life insurance plans. The tax burden of life insurance plans have far less impact on family members than qualified plans.

Life insurance makes a wonderful current gift to charity either outright or for a life income arrangement when the policy is no longer needed by the owner. The income tax deduction created from an outright gift can reduce taxes, offset capital gains and reduce or eliminate the impact of the policies accumulated dividends. When a life income plan is established a policy may be converted, perhaps tax-free, into current income.

Technique 11: A Gift Annuity with wealth replacement life insurance.

Many individuals who wish to make a major charitable gift are concerned about their inheritance plans for children or grandchildren.

A partial solution may be to establish a charitable gift annuity to increase income and then use a portion of the increased income to support the premium on a life insurance policy with the family as the beneficiary of the policy.



In the above example a $100,000 cash funded single life gift annuity for a 65 year old produces gross income of $5,300 and net after tax income of $4,700. The net after tax income is sufficient to purchase a permanent life insurance policy of $100,000 payable to the heirs as a replacement for the original gift amount. The premium depends on the health status of the donor in above example the anticipated cost is between $1,977 and $2,561 depending on health status. After premium payments there is still sufficient income for donor to enjoy the economically beneficial effects of the gift annuity.

The July 1, 2010 gift annuity payment rate increase to 5.5%.

Other items to consider when planning for outright asset transfers or transfers for life income arrangements.

1. **Short term vs long term holdings: It is wise to choose long term holdings which are deductible at fair market value over short term holding which are deductible at cost.**
2. **Total of itemized deductions: Does the effect of the gift force the individual into itemizing their deductions so they receive the full economic and tax benefit of the gift?**
3. **Appreciated vs depreciated securities: Depreciated securities should always be sold and the cash contributed so the individual can report the loss on their tax return and deduct the gift up to the 50% of adjusted gross income limit.**
4. **Limitations on deductibility of gifts (50% and 30% of AGI): see page 6 for the deduction order for charitable gifts.**
5. **Valuation date for donated listed securities: The IRS stipulates the mean value of the asset on the date of the gift must be used for charitable deduction purposes. See IRS publication 561 Determining the value of donated assets for complete details.**
6. **IRS Form 8283 requirements: Form 8283 must be files whenever the donated asset is securities valued over $5,000 or property valued over $500.**
7. **Mutual fund transfer instructions: Mutual funds normally require a charity to set up a separate account into which the donated shares must be transferred prior to sale.**
8. **Stock/Bond power requirements: Donors who have stocks or bonds in certificate form must complete a stock or bond power before the certificates can be deposited into the charitable account.**
9. **Documentation requirements for joint owners, deceased owners, trust registrations and corporate registrations: Charities must become familiar with the myriad of methods assets can be registered and the requirement to transfer such assets.**
10. **Multiple stock certificates, book entry delivery and signature guarantees: The donor is responsible for determination of the cost basis of donated assets for life income agreements and the asset must be received in good delivery form before the charity can sell the asset.**

Notes: