THE CHARITABLE ALTERNATIVE

Fall 2013 Edition

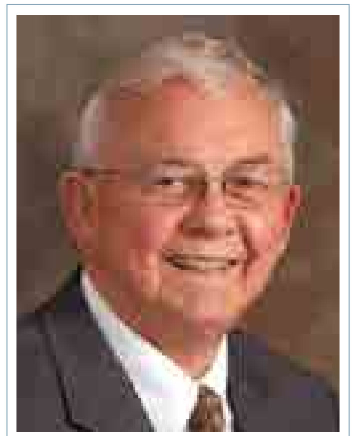
One Connection. Unlimited Possibilities.
SOUTHWEST INITIATIVE FOUNDATION

Creative estate planning techniques using charitable alternatives to achieve your clients' financial objectives

We are here to assist you with the gift portion of your client's estate plan.

And, don't forget to mention the special benefits of establishing Donor Advised Funds.

Contact the Southwest Initiative Foundation to discuss any of these topics or to develop a specific illustration for how charitable giving can be part of helping your clients meet their financial goals.



Bob Golberg
Legacy Gift Planner

bobg@swifoundation.org
800-594-9480 or 320-587-4848

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THE CHARITABLE ALTERNATIVE

This publication is provided as a service for finance, tax and estate planning professionals by:

Southwest Initiative Foundation
15 3rd Avenue NW
Hutchinson, MN 55350
www.swifoundation.org

MISSION:
To be a catalyst, facilitating opportunities for economic and social growth by developing and challenging leaders to build on the region's assets.

GIVING:
Donors see the Foundation as a single connection that, in its role as a community foundation, advances and enriches individuals, businesses and communities throughout the region—stimulating unlimited possibilities.

In addition to outright gifts, Southwest Initiative Foundation welcomes deferred gifts through wills, life insurance, charitable gift annuities and charitable trusts.

SERVICE AREA:
From Ortonville to Jackson, Hutchinson to Luverne, the Foundation serves more than 150 communities in its rural southwest Minnesota region.

Southwest Initiative Foundation is an Equal Opportunity Provider.

SOUTHWEST INITIATIVE FOUNDATION

Why Gift Retirement Plan Assets to Charity?

Qualified retirement plan assets are subjected to full income taxation as well as possible estate taxation when received by your heirs. Nearly everything else—the family home, appreciated securities, undeveloped land, etc.—receive a full step-up in basis at the owner's demise, eliminating any income tax for the recipients. Not so with retirement plan assets. The only beneficiary that can receive these assets income-tax-free is a qualified charity.

So, if your client has any desire to leave a charitable legacy, an IRA or other qualified plan offers the greatest leverage. The remaining estate will pass income-tax-free to your client's heirs.

Capital Gains Planning: Repositioning/Diversifying Equity Positions

The American Taxpayer Relief Act of 2012 **increased the federal tax rates on capital gains and dividends from 15 percent to 20 percent** for taxpayers exceeding $400,000 in taxable income (single) or $450,000 for joint filers.

Anticipating this change, we witnessed heavy year-end selling in such growth stocks as Apple over the past month.

Now, what?

Unlike real estate, installment sales tax treatment is not offered for the sale of listed securities. **The sale of Apple or any other highly appreciated, long-term position will likely balloon your clients' annual income in the year of repositioning.** Yet, in this difficult and changing investment climate, diversification is key to securing dependable future income for retirees.

So, how can your client with a large capital gain position in one or more listed securities, take profits and reinvest in a diversified portfolio while mitigating taxes?

Consider the Charitable Remainder Trust (CRT)

Here is a tool that can receive highly appreciated assets, liquidate them without any initial taxation, reinvest the net proceeds in a diversified portfolio and pay a stipulated percentage, e.g. 5 percent annually to beneficiaries named by the donor.

The term of these charitable trusts may be for a period of up to 20 years or the lifetimes of the named beneficiaries. And, the taxation of that capital gain is realized over a period of years based on the term and the beneficiaries' life expectancy.

So, while the sale of stock does not qualify for installment sale treatment, here is an opportunity

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ASSETS continued from page 1

to achieve similar tax results.

At the end of the term, any remainder in the trust will be paid to the charity or charities named by the donor. It is this "remainder gift to charity" that provides another benefit to our client. At the CRT's inception, our client receives a charitable income tax deduction for the present value of this future gift to charity.

Not only did we spread out the taxation of the capital gain but we created a tax deduction to further mitigate any shrinkage in the net proceeds.

A Case In Point

Consider the case of Bob and Mary Burns. Bob is a 63-year-old executive and Mary is a 58-year-old school teacher. Over the years, the Burns have purchased stock in a personal, non-qualified account and at current market value hold $780,000 in value.

Their cost basis is only $115,000. To liquidate and diversify means realizing $665,000 of taxable capital gain at today's 20 percent federal rate. Yuck!

Of course, the Burns could liquidate smaller parcels over the next few years but Bob is contemplating retirement and would like diversifying into a portfolio of dividend paying blue chips at this time.

If the Burns placed their shares in a 5 percent Charitable Remainder Unitrust with both of themselves named as lifetime beneficiaries and we assume an average investment performance of 5.5 percent yearly, the following results would be realized.

1. Since the initial sale by the charitable trustee would avoid taxation, the full $780,000 at 5 percent payout would produce $39,000 in first year income.
2. A 0.5 percent growth annually would increase payout slightly $39,786 (year five), $40,791 (year 10), $41,821 (year 15), etc. At the end of year 30 (the Burns joint life expectancy) total income payments of $1,258,921 are projected. Of course, payments would continue as long as either of the Burns live.

At the end of 30 years, the remainder in the trust is projected to have grown to $905,892—a significant charitable legacy.

Instead of reporting $665,000 of taxable capital gains in 2013 and forfeiting $133,000 to federal taxes, the Burns' trust reinvests the full $780,000 and the capital gain portion of their income is spread out over 30.7 years, their joint life expectancy.

Additionally, at the inception of the trust, a $214,921 charitable tax deduction is generated by the present value of the remainder gift which would further mitigate taxes.

The New Dynamic
Outright Gifts of Appreciated Securities

With the new higher tax rates for 2013, charitable gifts of appreciated stock will be relatively more attractive. For appreciated securities (held long-term) donated to charity in 2012, the combined tax of 35 percent for income tax and 15 percent for capital gains would have resulted in a total savings of up to 50 percent compared to 35 percent for cash gifts. **In 2013, on the other hand, with ordinary tax rates as high as 39.6 percent and capital gains increased to a maximum of 20 percent, the total savings can be just under 60 percent.**

In addition, for those subject to the 3.8 percent Medicare contribution tax, a gift of appreciated property will permanently bypass that tax as well as capital gains tax, as no sale takes place that would cause gain to be reportable.

In summary, the effective tax on capital gain income at the federal level could be as high as 23.8 percent and the total tax saving from a gift could be more that 63 percent. State capital gains tax could further the savings from appreciated property gifts rather than cash.

Your Legacy Planning Guide

A new planning newsletter is available for clients who wish to explore charitable alternatives in their estate plan. Please ask your clients if they would like to be on our mailing list to receive ***Your Legacy Planning Guide***. Email names and addresses to **bobg@swifoundation.org** or call **800-594-9480**.

A "Bird in the Hand"

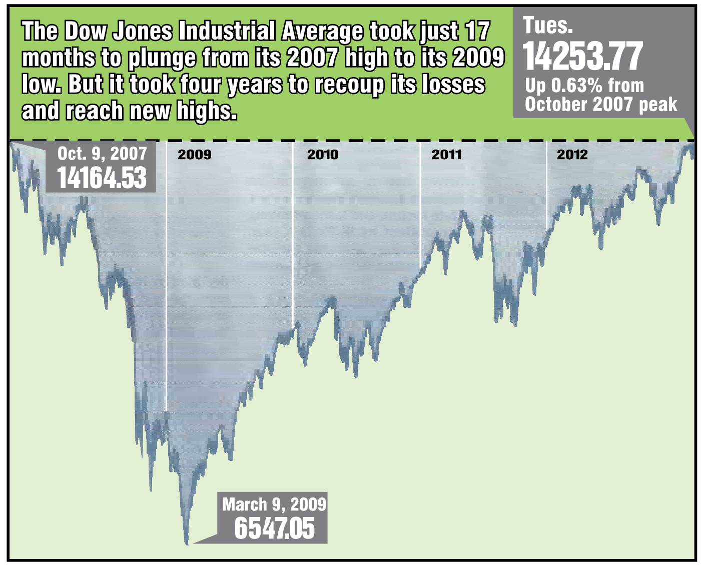
While almost every donor will be affected by one or more of the provisions of the American Taxpayer Relief Act of 2012 , those who enjoy supporting charitable interests will be relieved to find that a variety of proposed changes that could have negatively affected charitable giving **were not** included in the Act.

As a result, now is the time to move ahead and reap maximum results from this welcome period of certainty, however brief.

For additional planned giving resources and ideas, visit *www.swifoundation.org/plannedgiving.*

Query: Time to Assist Your Clients in Taking/Gifting Some Profits?

Just picture the path of the Dow Jones Industrial Average.



Since the "bottom" in March 2009, investors have enjoyed a rising market. Today, many of your clients have enjoyed climbing market values and some may be sitting on a mountain of unrealized capital gains.

Talk about gains! The stocks listed to the right have appreciated roughly 100% in just the last 12 months. That's right. Their market value has doubled in the last year.

What can be done to mitigate the tax bite?

Of course, while your clients may not hold any of the issues listed, significant wealth has been created over the last year in holdings like Google, Priceline Amazon, Fossil, etc.

In the last 12 months, Google has risen 274 points, Priceline 260+ points, Amazon 90+ points, Fossil 70+ points. And, as our graph indicates, this has been a four-year rally so the last 12 months only tell part of the story.

Locking Up Profits: Mitigating Higher Capital Gains Taxes

We think many of you may be advising some profit-taking at this point in a four year bull market. Maybe your client liquidates one-half of his/her position in one or more of these winners. But, that new 20 percent federal tax rate on long-term capital gains is less than an exciting prospect.

Charitable Gifts of Securities: Leveraging the Gain

As many of you know, gifts of appreciated stock held "long-term" (one year and one day) to a qualified charity are tax deductible at full market value.

So, that client who bought Netflix a little over a year ago for $40 per share, may deduct $197 per share (current market value) when he/she gives it to Southwest Initiative Foundation or one of our partner funds. None of the underlying gain is recognized. You can see the leverage enjoyed in this type of tax planning.

"GIVE SOME, SELL SOME"

That client with a large position in one of our winners can simply make gifts of some shares to charity while selling others outright to utilize the deductions created by his/her charitable giving.

New York Stock Exchange Issues *(Closing Price 3-10-2013)*

AOL ($37.15)	Alon USA Energy ($19.65)	Best Buy ($20.17)
H&R Block ($27.28)	Cabot Oil & Gas ($64.60)	Cemex ($11.92)
Centene Corp ($47.92)	Community Hlth Sys. ($42.91)	Cmptr Sciences ($49.76)
Constellation Br ($43.98)	Eagle Materials ($71.57)	Emeritus Corp. ($30.42)
Evercore Ptnrs ($43.08)	Flagstar Bancorp ($14.93)	GEO Group ($35.74)
Holly Frontier ($56.09)	Hovnanian ($30.36)	K B Home ($20.18)
Linkedin ($176.86)	Lumber Liquidators ($66.53)	M/I Homes ($25.65)
Manitowoc Co. ($19.72)	Mastec ($30.39)	Metro PCS ($10.81)
Navistar Intl ($35.43)	Nokia ($3.68)	Ocwen Fin. ($40.42)
Oshkosh Corp ($39.88)	Phillips 66 ($66.03)	Piper Jaffray ($39.41)
Proto Labs ($48.23)	Pulte Group ($20.26)	Quad Graphics ($23.22)
Ryland Gp. ($39.06)	Standard Mtr Parts ($27.81)	Tempur-Pedic ($45.10)
Tenet Hlthcare ($43.20)	Terex ($34.52)	Tesoro ($58.40)
3 D Systems ($33.72)	Trex Co. ($50.90)	Trinity Ind. ($44.38)
Trulia, Inc ($30.44)	USG Corp ($28.68)	U S Silica ($26.43)
United Rentals ($54.80)	Valero Energy ($45.50)	Visteon ($60.04)
Wage Works ($24.26)	Western Refining ($38.27)	Whirlpool ($117.75)

Nasdaq Issues

AEP Industries ($72.50)	AFC Enterprises ($33.66)	ARM Holdings ($42.44)
Acme Packet ($29.22)	Aegerion Pharma ($36.90)	Alico Inc ($42.04)
Alnylam Pharma ($24.58)	Amerco ($158.70)	Amer. Pacific ($21.60)
Amer. Railcar ($45.20)	Amer. Woodmark ($32.97)	Angie's List ($19.45)
Apogee Ent. ($28.09)	Aruba Networks ($25.71)	AthenaHlth ($97.13)
AvisBudgetGp. ($25.81)	Barrett Bus Svcs ($48.78)	Big 5 Sprt.($15.76)
BioMarin Pharma ($61.46)	Bofi Holdings ($35.77)	CSR plc ($29.03)
Caesars Ent. ($13.47)	Calumet Spc Pdts ($39.58)	Celgene ($111.36)
Clovis Oncology ($26.05)	CommVault ($77.47)	Conns Inc ($33.79)
Cree, Inc ($52.31)	Cymer ($97.26)	Endocyte ($9.50)
EnerNOC ($16.63)	Expedia ($64.72)	First Solar ($26.29)
Furiex Pharma ($41.00)	Geospace Tech ($109.50)	Gilead Science ($45.43)
Green Mtn Cof ($52.87)	Gulfport Engy ($42.71)	Homestreet ($25.42)
HyperionThera ($23.28)	Infinity Pharma ($46.27)	InterDigital ($47.59)
Isis Pharma ($17.70)	Ligand Pharma ($22.97)	Medidata Sl ($55.19)
MicroStrat ($114.19)	MobileMini ($27.73)	Nathan's Fam ($39)
Netflix ($184.70)	Nortek ($73.00)	Onyz Pharm ($85.65)
Ovrstock.com ($12.24)	PDC Energy ($50.46)	PDF Solutns ($16.62)
Popular, Inc ($27.76)	Portfolio Recovery ($124.97)	ResrchnMot ($13.06)
Rovi Corp ($20.67)	Saia, Inc ($32.24)	Santarus ($15.45)
Sarepta Thera ($30.43)	Silicom Ltd ($28.55)	Silicon Grph ($15.)
Sinclair Brdcst ($18.25)	Starz ($20.42)	Stratasys ($69.95)
SunPower ($11.91)	SurModics ($26.84)	Tesaro,Inc ($23.95)
Take-Two ($15.42)	ValueClick ($27.72)	Virgin Media ($47.70)
Virtus Inv Ptnr ($184.62)	Xenoport, Inc ($8.63)	Zillow ($49.52)
Zipcar ($12.26)		

For additional planned giving resources and ideas, visit *www.swifoundation.org/plannedgiving*.

Funding Charitable Remainder Trusts/Gift Annuities via Appreciated Securities

For your senior clients who, in these days of low yields, may desire income from their capital, consider the opportunities available with each of these deferred gift arrangements.

CHARITABLE REMAINDER TRUST

The beauty of this plan is that the trustee of this trust may sell the donated securities without taxation and reinvest in a diversified portfolio for future income. So, we took the profit and reinvested. Now, as the lifetime income is paid to your client, a part of each payment is capital gain.

Think about it. While real estate qualifies for installment sale treatment, listed securities do not. Yet, we have achieved similar treatment in this arrangement.

We locked up gains, diversified holdings and enjoy spreading the taxation over time.

Not bad!

CHARITABLE GIFT ANNUITY

For the senior who wants fixed, secure income with no ups, downs or excitement. Your client can contribute his/her appreciated securities in exchange for this fixed income instrument and again, the taxable capital gain will be distributed in equal installments over their life expectancy.

Both of these plans provide an immediate income tax deduction at inception for the "present value of the future gift to charity".

PLANNING SERVICES

If we can be of service in illustrating any of these strategies for you and your clients, please contact us.

To achieve the tax results discussed, it should be noted that the client must transfer his/her securities to the qualified charity where they are sold by the nonprofit organization or trustee of the charitable trust.

10 Questions to Help Your Clients Explore Charitable Estate Gifts

The following questions were prepared to help professional advisors explore fact-finding, feeling and motivational questions as they help their clients determine the gift portion of their estate plan.

Fact-finding questions that lead to feelings and motivations

1. **What charities have been important to you?**
   a. Charities that served your family
   b. Charities that you have supported financially
   c. Charities to which you have provided leadership

2. **Who are the family members you have concern for now and in their future?**
   a. Concerns about their age when they will inherit
   b. Concerns about their financial situations
   c. Concerns about any special needs they may have

3. **Do you have personal financial concerns?**
   a. Concerns about retirement income
   b. Concerns about health care
   c. Concerns about having enough money to travel
   d. Concerns about taxes you and your estate will owe

Feeling questions

4. **What concerns do you have about the future of your charitable interests?**
   a. Concerns about continuing their missions or expanding their services
   b. Concerns about people who will need their services
   c. Concerns about continuing your annual charitable giving after your life is completed
   d. Concerns about what you need to do to leave a legacy you can really feel good about—a legacy that would be significant and meaningful to you

5. **What are your personal concerns for yourself and your loved ones?**
   a. Concerns about your personal care in the future
   b. Concerns about passing assets from your estate to your heirs

Motivational questions

6. **If you could change anything in the world, what would it be?**

7. **If you were to make an estate gift to one or more of your favorite charities, what would you want it to accomplish?**

8. **How much do you want to leave your heirs? Is there an upper limit?**

9. **Would you rather give your heirs income or capital?**

10. **Would you like to give less to taxes and more to your heirs and to your charitable interests?**

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