

More Planning Techniques To Discuss

This issue talked about lifetime transfers to CRTs and gift annuities but there is a whole world of generational wealth transfer techniques including the Charitable Lead Trust, Life Estate Arrangements, the use of CRTs and Charitable Gift Annuities with Qualified Retirement Plan distributions, Special Needs Trustees as beneficiaries of a CRT, and all testamentary planning arrangements to minimize estate tax and mitigate generation-skipping transfer tax.

In the meantime, don't hesitate to contact me at the Southwest Initiative Foundation with any questions, comments or thoughts about how we can help better serve you and your clients.



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THE CHARITABLE ALTERNATIVE

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

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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:

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

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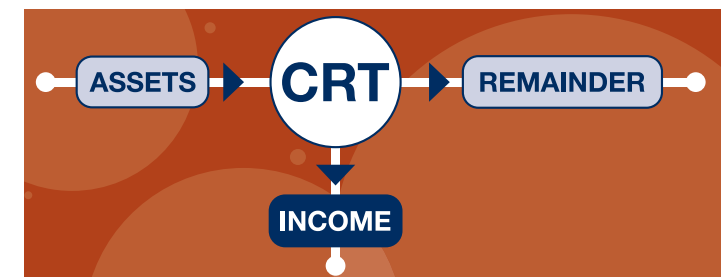
Charitable Planning Techniques

Adding Value for Advisor and Client Alike

As a financial planning professional, you're expected to have expertise in federal and state income taxation, investment products and their suitability, insurance coverages, estate and gift taxation, cash flow planning, qualified retirement plan contribution and distribution rules and, oh yes, the ability to make present and future value calculations specific to your client's situation. Did we mention, "leap tall buildings in a single bound?" Well, it's a daunting task for anyone to master. A little networking can help.

With A Little Help From Your Friends

Over some 40+ years in the field, the writer of this newsletter, a charitable gift planner, has borrowed the expertise of many other financial professionals in an effort to bring the best options to his clients. Perhaps it was an estate planning attorney or someone specializing in senior issues with a strong understanding of long-term care options. Most of you have some dog-eared



business cards in your appointment book for those resources you have called on over the years.

We suggest that you add Southwest Initiative Foundation (SWIF) to that collection of trusted expertise when it comes to Charitable Planning Options. We have the tools and the expertise to help you bring many unique opportunities to your clients. In the pages that follow, we will give you a potpourri of the applications from a gift planner's point of view.

Immortality Striving

Before delving into tax and income planning opportunities, let's spend a moment on one of mankind's deepest motivations—the need to leave a legacy that lives on after they are gone. Some call it "immortality striving" or "leaving their mark." It explains those names on buildings, the popularity of endowments and these closing lines from poet Dromgoole's "Bridge Builder."

*"You've crossed the chasm, deep and wide—Why build you this bridge at eventide?"
The builder lifted his old gray head; "Good friend, in the path I have come," he said,
"There followeth after me today
A youth whose feet must pass this way,
This chasm that has been naught to me to that fair-*

*haired youth may a pit-fall be,
He, too, must cross in the twilight dim; Good friend, I am building the bridge for him."*

The suggestion of a simple charitable bequest in your client's will may give new meaning to his or her estate plan. Or, without making any changes to the will, your client could simply add Southwest Initiative Foundation, or one of our fund partners, to the list of beneficiaries on a life insurance, annuity or IRA account. This can also communicate personal values to the heirs of the estate.

Beyond the desire to leave a lasting legacy in the family name, consider the financial planning challenges explained in this newsletter, which may be mitigated with a well-designed charitable technique.

Appreciated Asset Sales: Minimizing Taxation, Maximizing Cash Flow

Does your client anticipate any of these conversions?

1 Sale of a highly-appreciated securities position

Your client has a large position in a publicly-traded stock. They bought Apple in 2009 for less than \$100 per share. Now, at well over \$500 per share, they'd like to take some profits and diversify their holdings while minimizing taxation.

2 Sale of rental real estate

After years of depreciation deductions, here is a capital asset with little or no cost basis (apart from land value) and the potential for a large taxable capital gain at time of sale.

3 Sale/exit strategy for family business

Again, here is an asset where years of sweat equity have created substantial market value and the heavy taxation following an outright sale offers the family little long-term security.

4 Tradedown of personal residence at retirement

For 25 years, your client lived in a four bedroom home with a growing family and now as an empty nester is desirous of cashing in all that equity and moving into something more manageable.

Charitable Toolbox: Charitable Remainder Trust

A Charitable Remainder Trust (CRT) is an irrevocable trust that can receive an appreciated asset which the trustee can then sell, without any initial taxation, and pay income, e.g., 5 percent of trust's value, to the client's named beneficiaries for the term of the trust. At the end of the term, any remainder flows to the qualified charities named in the trust document.

While no initial taxation is levied, the proceeds in the trust hold their character as taxable capital gain, reinvested interest earnings and non-taxable cost basis and are so taxed as income payments are received. Typically CRTs are drawn for a term of up to 20 years or the lifetimes of the beneficiaries.

So, here we have a tool whereby our client is able to **convert the before-tax-value of an asset to a lifetime stream of income and spread the taxes out over the term**. Additionally, they receive an initial charitable income tax deduction for the present value of the future remainder passing to charity. And, of course, they've left a charitable legacy.

Consider what this strategy has done for your clients:

- To the client with a single growth **stock** holding totaling 20 percent of their estate, we've diversified into a portfolio of multiple securities securing substantial income for a lifetime.
- On the **rental real estate**, we've eliminated the hassles of land lording, continued a stream of income more dependable than rents and mitigated the taxes.
- On the **family business**, we've retired, continued to provide income to the family stockholders and mitigated taxes.
- As for the personal residence tradedown, we could do a CRT but this client wants more than income, he/she wants another home. Consider another selection from our toolbox - the **Installment Bargain Sale**. In this scenario, the client sells his residence to the charity at "bargain" price, let's say 80 percent of its appraised value. Then, the terms of the sale can

Today's Greatest Need

Income Returns for Seniors

While mortgage rates are hitting all-time lows and young homebuyers are cheering, bank and treasury returns on deposits are also at all-time lows and retirees are desperate.

A few years ago, a \$300,000 nest egg held as a CD at the local bank gave a retiree 4 percent or more per year. That's \$12,000 per year or \$1,000 in monthly income to supplement a pension and/or social security. Today, that \$300,000 CD might pay 0.8 percent or \$2,400 per year or \$200 in monthly income. That's an 80 percent decrease for a retiree who's buying \$4 per gallon gas.

Even your clients with \$1 million or more in liquid assets are hard pressed to make much of these bank and treasury instruments.

Many take on more risk and move to dividend paying utility or telecom stocks. Of course,

ANNUAL RETURNS?

For a single life age:

70	.....	5.1 percent
75	.....	5.8 percent
80	.....	6.8 percent
85	.....	7.8 percent
90	.....	9.0 percent

for some of your older clients, the answer may be to annuitize some of their holdings. Certainly, a guaranteed lifetime income of 5 percent or more can provide real peace of mind to a senior.

Charitable Gift Annuities: Lifetime Income/Charitable Legacy Combined

Here is a technique from the toolbox that requires no trust, just a simple two-page agreement and may be initiated for any amount over \$10,000.

It can be funded with cash or appreciated securities, offers an immediate deduction for the present value of the remainder and much of the income is considered a tax-free return of principal over life expectancy.

Here's a situation where a planner could use a combination of charitable and commercial annuity products to take some of the uncertainty out of those sunset years, while affording the senior the chance to fund community causes.

As a closing thought on seniors and low yields, the CRTs mentioned earlier convert asset holdings into professionally-managed income which may help this client get beyond CD and treasury returns.

► be based on the client's needs. If the client found a desirable townhome for \$250,000, he/she could make that the down payment and ask the charity for an installment note for any balance. So the client pays cash for the new residence and receives fully amortized installment payments for 20 years. This spreads out the

taxation and yes, the capital gain exemption for the sale of a primary residence is allowed.

In order to illustrate CRT concepts, we have made simple assumptions:

- On the real estate discussed, we have assumed no indebtedness.

- With the business, we have assumed a c-corp status.
- Naturally, there are solutions to more complex situations but that's where personal discussion is necessary.
- While we introduced the CRT, there are many varieties of this tool. Some pay a fixed amount and others make performance-based payments.

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