

End of Year Charitable Planning

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Autumn in Oregon – clear, crisp days, cool nights and a riot of color wherever you look. And, it's the time of year when many begin to look at end-of-year tax planning. For the philanthropically-inclined, one aspect of planning may be gifts to support a favorite charity. If you are part of that group, you may be interested in exploring some techniques worthy of discussion with your CPA, attorney or financial advisor.

Cash Gifts

Of course, the simplest approach is a gift of cash. Such gifts are generally tax-deductible up to 50 percent of the donor's Adjusted Gross Income. Amounts that cannot be utilized in one year may be carried forward for up to five years.

Charitable Gift Annuities

Another approach, which can be particularly appealing to older donors or those making relatively modest gifts, is the Charitable Gift Annuity (CGA). With a CGA, the donor gifts cash or property to the charity in exchange for annual income (the annuity) for the donor's life or the lives of the donor and spouse. CGAs are also simple to establish – often a one-page document is sufficient to define the rights and obligations of the charity and the donor. Gifts of highly appreciated property are particularly appropriate as the tax-exempt charity can sell the property without being subject to capital gains tax. And the donor has the security of knowing that the lifetime income stream is backed by the assets of the charitable organization. The income from the annuity has favorable tax treatment for the donor since it is taxed partly as a return of capital. *Example:* You and your spouse, both age 75, donate \$100,000 in exchange for a CGA. The annuity pays \$5,700/year (78.2% tax free) as long as you or your spouse are alive. You receive a \$28,657 income-tax deduction.¹

Charitable Uses of Life Insurance

For the donor who wants to provide a substantial gift for a comparatively modest outlay, a gift of life insurance may be the best option. It is even easier to establish than the CGA since the only documentation that is required is the insurance policy itself. Ownership of an existing policy can be transferred to the charity in exchange for an income-tax deduction equaling the fair market value of the policy. An alternative approach is a new policy which the charity owns from the outset. During the donor's lifetime, premium payments may be tax-deductible up to 50 percent of the donor's income if cash to pay the premium is given directly to the charity. Or, the donor can gift highly-appreciated property that the charity can use to pay premiums and deduct the entire value of the gift including gains. The donor escapes the capital gains tax that would be due if the property were sold and cash donated to the charity and the charity is, of course, tax-exempt. *Example:* You and your spouse, both

¹ Source: <http://purdue.giftlegacy.com/giftlaw/glcalc.jsp?WebID=GL2007-1252> (Purdue University)

age 75 and in good health, arrange to have a charity purchase a \$100,000 survivor life insurance policy, guaranteed to age 100, on your lives. You donate and deduct the \$1,989 annual premium each year.²

Charitable Lead Annuity Trusts

For the donor whose estate is large enough to be subject to significant estate tax at death, a Charitable Lead Annuity Trust may be appropriate. This is the most complicated approach and generally does not provide a charitable income tax deduction, but can provide a significant reduction in gift and estate tax when assets are received by heirs. The donor gifts property to an irrevocable trust which pays an income, at least annually, to the charity. At the end of the trust term, any property remaining in the trust passes to the remainder beneficiary – typically the children of the donor. The property, including any appreciation, is received by the beneficiary free of gift or estate taxes. A CLAT can be created either during the donor's lifetime or at death via the Will. *Example:* You and your spouse, both age 75, donate \$1 million, growing at 5.5 percent per year, to a CLAT paying 5 percent for 15 years. The amount of your taxable gift to your heirs is reduced from \$1 million to \$357,535. The charity receives \$50,000/year for 15 years. After 15 years, \$1,112,043 passes to your heirs free of estate or additional gift tax.³

There are other approaches as well, but a more in-depth examination of these techniques is beyond the scope of this article. When considering any of them, you will want to involve your professional advisors and discuss them with affected family members. For additional assistance, please view the Jewish Community Foundation as a resource. Please don't hesitate to contact Julie Diamond who can provide some useful preliminary information as you and your advisors begin the process. Now is a perfect time to give yourself the satisfaction of knowing that you have helped your community, and, with some approaches, helped yourself and your loved ones as well.

²Source: Illustration of \$100,000 Lincoln Life Guarantee SUL dated 10-15-2010.

³ Source: NumberCruncher 2010.01 software by Stephan Leimberg.