WEALTH MANAGEMENT ROUNDTABLE
&
MINTO LAW GROUP, LLC

Present

Charitable Planning for Income and Estate Taxes

There are many examples of charitable planning.

- Most of them are common and are used by us in our everyday lives.
- We donate money to our churches, schools, civic organizations and other worthy charitable causes.
- If we itemize deductions we even get to deduct them on our tax returns.
- We get the feeling that we’ve helped and, if we’re lucky, we save some taxes.

But for the wealthy, charitable contributions take on a whole new character completely distinct from that seen by normal taxpayers!

- As you will see in this presentation:
- Their motivations and the end results of their charity are completely different.
- The level of sophistication used to provide the wealthy with the benefits of charitable donations is considerable.

Goals of this presentation:

- To familiarize you with the general and overall approach to charitable giving for the wealthy.
- To show you the market for charitable giving for the wealthy.
- To familiarize you with some of the basic language used in charitable giving.
- To demonstrate how you can keep clients and obtain new clients through recommendations for charitable giving.

The market for charitable giving for the wealthy.

- In his book *Advanced Planning for the Ultra-Affluent*, author Russ Alan Prince conducted a survey of several hundred individuals whose net worth was in excess of $25 million and, as a consequence of the questions asked during the survey, broke the ultra-affluent into nine different personality types.
- These nine different personality types were then asked to rate the importance of the four basic services provided by attorneys and financial professionals.

These four services were as follows:

- Wealth enhancement – the ability to earn them more money.
- Wealth transfer – the movement of money to succeeding generations.
- Asset protection – the protection from loss of the money they have already accumulated.
- Charitable giving – the donation of their money to a charity.

Please list the four in the order of importance to the ultra-affluent.

1.

2.

3.

4.

The general and overall approach to charitable giving for the wealthy.

- The wealthy want control of their wealth even if they give it away.
- They want to take maximum advantage of the income and estate tax breaks available to charitable donors.
- They want to continue to provide for their families.
- They want income, if possible from their charities to flow to them.

How can all of this be accomplished?

- Generally the most convenient way to achieve all of the above is through the use of a “Private Foundation”. The term “Private Foundation” is a defined term and the definition is found solely in the Internal Revenue Code.
- Basically a private foundation is nothing more than a charity controlled by an individual or family that is subject to certain rules and restrictions.

Private Foundations

- We are not going to bother with all of the details associated with the creation, implementation and ongoing maintenance associated with private foundations.
- Suffice it to say that a wealthy individual can donate funds to a private foundation and then, in certain instances, receive income from it and have his family members sit as members of its board of directors or in employment positions (at what some might believe to be rather substantial salaries.)

Private Foundations, continued.

- In general all of the income generated by the Private Foundation is income tax exempt, sales tax exempt and state and federal estate tax exempt.
- The only really stringent requirement is that in certain instances the private foundation must give away, each year, 5% of its principal value.
- However, as it is operating in a tax free environment this should not present a significant obstacle and if certain requirements can be met, even the 5% requirements can be avoided.

Some of the basic language used in charitable giving.

- There is a whole series of terms used in charitable planning that are basically abbreviations of types of charitable giving.
- They, for the most part, are based upon how income from the charitable giving is paid back to the donor. Yes, PAID BACK, to the donor.

EXAMPLES

- CRUT/CRAT – Charitable Remainder Uni-Trust/Charitable Remainder Annuity Trust – in this situation a donor donates a sum of money or asset (most likely a substantially appreciated asset with a low basis) to a charity (obtains an income tax deduction) and in return seeks an annual percentage return on the amount donated for a period of years. At the termination of the period of years the asset reverts to the charity and the property, while still controlled by the donor through his family control of the charity, is eliminated from his estate for federal estate tax purposes.

Examples, continued.

- Charitable Lead Trusts – in this situation the donor donates money to a trust and annually, for a period of years, pays a percentage of the corpus to a charity. The donor receives an income tax deduction equal to the present value of the annual payments to charity. At the termination of the period of years, the trust either reverts to the donor or goes to another noncharitable beneficiary (presumably a family member). As with the CRUT/CRAT, the asset is removed from the donor's estate and the annual income is typically paid to a private charitable foundation controlled by the donor or his family. Thus all of the funds are, directly or indirectly, still controlled by donor's family.

Examples continued.

- There are many permutations and combinations of the above that are worked in together with other estate and asset protection strategies.
- The main goal of each, however, remains the same. The donor gets a significant income tax deduction, receives income from the donations, still controls, directly or indirectly, all of the funds, and while still maintaining such control, has the funds eliminated from his estate for federal estate tax purposes.

How can you keep clients and obtain new clients through charitable giving?

- Use the following example to show how you can become an invaluable resource to your clients and to potential clients.

EXAMPLE

Bill and Dottie Rich, both in their late 60’s, are your clients (or have come to speak to you and possibly retain you to manage their assets) and present the following facts:

1. They have a gross estate of $5 million with almost all of it in marketable securities as Bill sold his business two years ago.

2. They have two children, both in their forties, and both are relatively stable but the Riches are uncomfortable with leaving them any significant sums outright.

3. Their current estate plan consists of a will with only the normal credit shelter provisions. Thus, only $3 million of their estate is protected leaving a balance due for federal estate purposes of $1 million. Bill and Dottie don’t like this, but they also hate the thought of “wasting money” on insurance.

4. While talking with the Riches you learn that they are living on approximately $150,000 per year and are interested in planning that allows them to control their assets yet eliminate them from their federal taxable estate.

Example continued.

Based upon this information you suggest to the Riches that they may want to consider creating a private charitable foundation and consider donating to it at their deaths through their will. They would then have no federal taxable estate, the trust would not be subject to tax, and their children, grandchildren, and great grandchildren could draw salaries from the fund as its officers and directors thus creating a long term ability to provide income to future generations while simultaneously helping some charitable interest.

Example continued.

Because of their initial approval of your plan, you now become even bolder and suggest that possibly they might want to even consider a charitable lead trust where they would place money into a charitable trust, pay 6% of the income to a charity for a period of 15 years and at the end of the 15 year period have the balance go to the children. By doing this they would receive a current charitable income tax deduction of $1,320,000, the annual annuity of $120,000 paid to charity, controlled indirectly, of course, by them, would be accumulated tax free and the entire $2,000,000 would be excluded from their estate for federal estate tax purposes.

Example continued.

You, the financial advisor, could manage all of the funds, including those in the charity, not only during the client's life but more likely than not after his or her death as you should have, by then, created a bridge to the next generation because of your frequent dealings with the children in their roles as officers and directors of the charitable foundation and also because you saved the estate one million in estate tax.

Thanks for attending.

Please be sure to fill out the evaluation form.