

Ideas

on financial, estate, and charitable planning
from Southwestern Medical Foundation
and UT Southwestern

Givers Guide to Charitable Planning Options

Charitable planning involves making decisions not only about how much to give, but also about what, when, and how to give. Southwestern Medical Foundation can help you consider options that will enable you to make the best decisions for yourself, your family, and the charities that are important to you. Give us a call to discuss the ideas presented in this issue or use the enclosed reply card to request a personalized illustration of how you can make a gift and receive income for life.

Gifts of Cash*

Outright cash gifts are deductible up to 50% of your contribution base, typically equal to your adjusted gross income (AGI). Any unused deduction can be carried forward for up to five additional years. Generally, your out-of-pocket cost for a charitable gift is reduced by the same percentage as your marginal tax bracket. **Example:** A \$1,000 gift to Southwestern Medical Foundation for someone in the 35% marginal tax bracket could reduce the amount of tax the donor would otherwise owe by \$350 (35% x \$1,000). Net cost of the \$1,000 gift: \$650.

Gifts of Appreciated Property Owned More Than a Year*

An even better choice is a gift that has gone up in value and has been owned by you for more than a year. This type of property is known as long-term capital-gain property. If you own certain kinds of assets that have gone up in value—such as stocks, bonds, and real estate—you may find your savings even greater if you use them to make your charitable gifts. **Reason:** Gifts of most long-term capital-gain property continue to be deductible at their full fair-market value—and you do not have to recognize or pay tax on the paper gain.

The tax on most kinds of long-term capital gain is 15% for persons in marginal tax brackets of 25% and higher and 5% for those in the 10% and 15% brackets. If you use long-term capital-gain property to fund your charitable gifts, you avoid capital-gain tax and generate a tax deduction in an amount up to the value of the property.

Example: Gloria B bought 100 shares of XYZ stock for \$25,000 in 2000. Today, it is worth \$50,000. She knows if she sells she will owe tax on the \$25,000 long-term capital gain. In her 35% marginal tax bracket, the 15% capital-gain tax will amount to \$3,750.

Since she is planning to make a \$50,000 gift to Southwestern Medical Foundation this year, Gloria decides to give her XYZ stock instead of cash. She is able to deduct its full \$50,000 value—a \$17,500 savings in federal income tax. She also avoids paying the 15% (\$3,750) tax on her \$25,000 paper profit. This plan results in total tax savings of \$21,250 (\$17,500 income-tax savings + \$3,750 capital-gain tax savings).

Deduct your gift of appreciated property, up to 30% of AGI. Unlike gifts of cash, gifts of long-term appreciated property are deductible to the extent of 30% of your AGI.

Note: Just as with gifts of cash, any unused deduction can be carried forward for up to five additional years.

*Unless otherwise stated, it is assumed that the gift is made by an individual to a public charity (for example, Southwestern Medical Foundation).

Use the enclosed reply card to request our complimentary booklet, *A Personal and Charitable Financial Record*.

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Gifts That Provide Income to the Donor

There are a number of ways you can make a current charitable gift, benefit from significant tax savings, and continue to receive annual income based on the value of your gift. You can even add another beneficiary—such as a spouse or child—or designate another person or persons to receive the payments.

Charitable Remainder Trusts

One of the most popular types of life-income gifts is the charitable remainder trust (CRT), of which there are two basic types: the charitable remainder annuity trust (CRAT), which generates fixed payments based on a percentage of the original contribution to the trust, and the charitable remainder unitrust (CRUT), which provides variable payments based on a fixed percentage of the trust's value as it changes from year to year. In both cases, trust funds remaining at the death of the last income beneficiary pass to the designated charity.

How they work: If you contribute \$100,000 to establish a CRAT, retaining a 5% income interest for yourself, you will get \$5,000 each year for life. With a 5% CRUT, you will get \$5,000 the first year and future payments will be based upon the trust's value each year thereafter. In addition, you will be entitled to a current charitable tax deduction equal to the present value of the charity's right to receive the remainder of the trust at your death.

Both CRUTs and CRATs are excellent vehicles to escape "locked in" positions in stock holdings—and can be extremely valuable for planning in volatile markets.

Example: Don G, aged 70, experienced an impressive gain in his stock portfolio during the late 1990s. In the last few years, he has seen some of that gain disappear and is concerned about the future direction of the market. Now that he is retired, he would also like to get a higher return from his investments—most of his stocks pay little or no dividends—but is reluctant to sell and experience major capital gain.

Don decides to use growth stock currently worth \$100,000, purchased years ago for \$20,000, to create a

CRUT that will pay him 6% of its annual value. This will produce a \$47,985 charitable tax deduction, saving him \$16,795 in his 35% tax bracket. Better still, he will not have to pay any tax on his \$80,000 paper gain when he transfers the stock to the trust—a savings of \$12,000. The first year Don will receive \$6,000—a \$6,000 net increase in cash flow since the stock he used to create the trust paid no dividends.

The Charitable Gift Annuity

Another type of gift arrangement that generates a fixed life income is the charitable gift annuity. The income can be paid to either one or two beneficiaries, and the annuity rate is based upon the age(s) of the beneficiary(ies).

One of the most attractive features of the gift annuity is that a substantial portion of the annual payout is a tax-free return of principal for the balance of the life expectancy of the recipient(s).

An alternative to CDs. Investors in CDs may be disappointed with the low rates available when faced with renewal. Many charitably minded persons find the gift annuity to be an excellent way to meet charitable goals while increasing current cash flow.

Example: Phyllis B, 75, has a \$100,000 CD maturing soon. She needs to continue to receive the income it produced but does not find the 2.5% renewal rate attractive.

She decides instead to cash in the CD and use the proceeds to fund a major charitable gift she has been planning. She contributes \$100,000 for a charitable gift annuity that will pay her \$7,100 each year for as long as she lives. This is almost three times the \$2,500 she would have earned had she renewed the CD.

What's more, \$4,714 will be tax-free annually for the balance of her life expectancy. Plus, she gets a deduction of \$41,547, saving her more than \$13,700 in federal tax and reducing the out-of-pocket cost of her gift to about \$86,300.

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Visit our new Web site at www.swmedical.org.

We're Here to Help

Giving to charity is a rewarding action, but ultimately one that each individual must take on his or her own. If you would like to pull information together and explore a range of charitable planning ideas, please send for a complimentary copy of our latest booklet, ***A Personal and Charitable Financial Record***.

Or, if you prefer, please call Randy Daugherty,

Planned Giving Director, at (214) 351-6143.

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