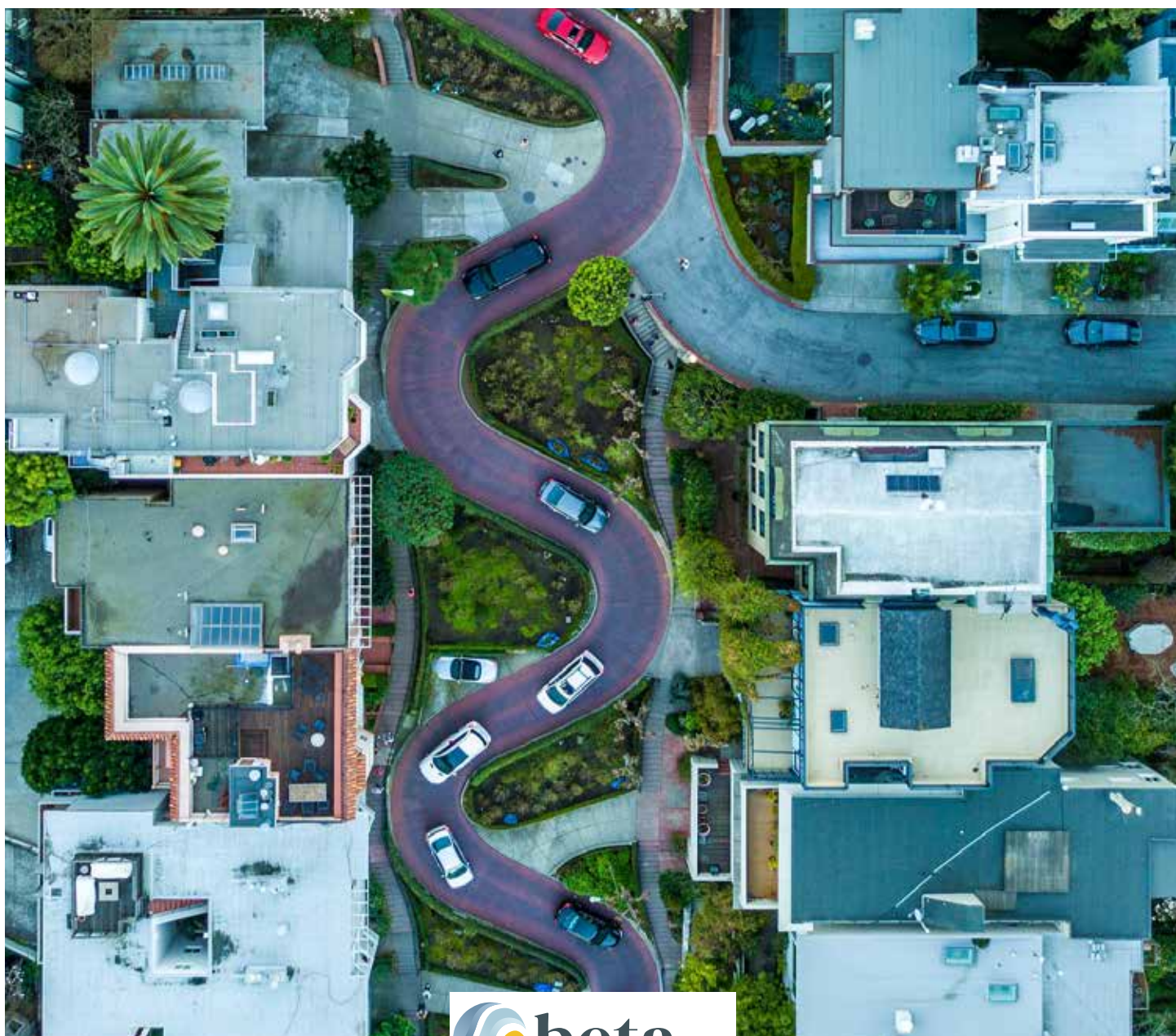


A GUIDE TO

CHARITABLE PLANNING TECHNIQUES



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SYNOPSIS

The distribution of funds and assets to charity is a great way to improve quality of life outcomes based on worth and need. Along with making the world a better place, you can benefit greatly through considered long-term financial planning. Whether you want to transfer funds outright, distribute money efficiently over time, or set up a binding trust arrangement, various techniques are available to ensure the seamless distribution of your funds and enduring promotion of your legacy.

There are many donation strategies available, including lifetime gifts, charitable funds, private foundations, and numerous types of trusts. Regardless of the financial vehicle used, your motivations for charitable giving should always be backed by solid financial and taxation strategies. In order to amplify your philanthropic efforts, it's essential to be aware of the charitable landscape, including the pros and cons of various financial vehicles, relevant taxation rates and procedures, and legal obligations. The following guide will help you to make the most of your assets and maximize the value of your estate. Like all financial matters, it's always important to consult with financial and legal professionals. From health and education to arts and religion, smart giving requires clear motivation, philanthropic insight, and intelligent decision-making.

THE MODERN STATE OF CHARITABLE GIVING

The long history of charitable giving in the United States illustrates the very best of American society. Philanthropy is a major source of funding for a huge range of causes and institutions across the country, from humanitarian and religious organizations through to health, education, and the arts. While distribution mechanisms and vehicles for giving continue to evolve across the financial landscape, each generation of Americans remains involved with the act of charitable giving.

[According to Giving USA](#), Americans gave \$427.71 billion to charity in 2018, with total charitable giving increasing slightly despite a complex financial climate. Over the past two decades, charitable giving in the United States has grown by a massive 83%.

[According to Non Profit Source](#), over two-thirds of donors give to non-government organizations, non-profit organizations, and charities located in the United States. Americans are also very generous with their time, with over 60 million adults volunteering billions of hours of service each and every year.

MOTIVATIONS FOR CHARITABLE GIVING

Regardless of who you want to help, the primary reason for giving is to improve quality of life outcomes and contribute to the effective distribution of resources and funds based on need. Along with the inherent desire to make the world a better place, philanthropy also provides significant emotional, psychological, and financial advantages to the person who is doing the giving.

A philanthropic culture is prevalent across the United States, including multi-generational philanthropy and charitable giving based on specific political, ideological, or religious commitments.

The following motivations for *charitable* giving are common:

- **Benefit worthwhile causes**
- **Receive taxation benefits while giving**
- **Adhere to personal, family, and business values**
- **Promote fair distribution**
- **Provide an income stream while giving**



FACTORS TO CONSIDER WHEN GIVING

There are many factors to consider before you start giving your money away. The ideological, cultural, and financial implications of charitable giving can be enormous. As such, it's important to take a step back and consider your intentions, along with the perceived and real effects of each financial gift you make. The value of a donor is not based on numbers alone, with your contribution also dependent on intention, context, and accountability.

By approaching giving as a form of investment, you can maximize the value of your gift while putting yourself in the most beneficial financial position.

THE FOLLOWING FACTORS SHOULD ALWAYS BE CONSIDERED WHEN MAKING *CHARITABLE* GIFTS:

The Motivation and Context of the Gift

- The status and structure of the charity organization
- The value of the gift for the recipient
- The implications of accountability for all parties

The Financial Implications of the Gift

- Asset and estate planning implications
- Taxation implications



IMPLICATIONS FOR ESTATE PLANNING

*E*ffective charitable gifting demands careful consideration and financial management. When it comes to estate planning, it's essential to create an overview in order to protect, preserve, and distribute the assets of your estate according to your wishes. Asset management needs to be defined for both asset disposition and asset protection, with different mechanisms needed depending on the type and size of your charitable gift.

CHARITABLE GIVING OFTEN INVOLVES SEPARATE MEASURES FOR ASSET DISPOSITION AND ASSET PROTECTION

Asset Disposition

Also known as transfer, refers to the act of selling or distributing an asset or security. It may involve a single outright transfer or separate distribution stages over time.

Asset Protection

Also known as preservation, is dedicated to the safety and security of assets over time, including specific legal protections.

Regarding asset disposition, it's essential to define the entity who the assets are being given to, along with the methods of disposal. For example, you may wish to dispose of assets outright, via a trust, or through defined distribution stages. Along with fair and equitable distribution according to your intentions, it's also important to ensure the safety and security of your assets at all stages of holding and disposal. When it comes to asset preservation, it's important to protect your estate from creditors, predators, and unnecessary taxation.



IMPLICATIONS FOR TAXATION

*T*he federal government has established a variety of tax incentives to encourage charitable giving across the country. Most of these incentives are related to capital gains tax or various estate taxes, with income tax also widely affected based on the specific gifting action and beneficiary. While the tax benefits of giving are fairly well known, there are also a number of rules and obligations to meet depending on the type and amount of the contribution you intend to make.

Not all charitable vehicles are treated the same way for tax purposes, so it's important to educate yourself and develop a working relationship with financial and legal professionals. While your primary motivation to donate to charity should always be altruism, it's also important to be aware of charitable contribution deductions and other benefits.

*WHEN IT COMES TO
CHARITABLE GIVING,
THE IMPLICATIONS FOR
TAXATION PRESENT
THEMSELVES IN **TWO**
SEPARATE YET RELATED
WAYS*

#1 Responsibilities and Obligations

Including taxation and financial reporting are held accountable on the gifting party

Financial Benefits **#2**

Benefits of the gifting process include income tax, estate taxes, and capital gains tax

INCOME TAXES

In the United States, charitable donations made to a qualified charity are tax-deductible. A charitable contribution deduction against your income tax is available if you itemize deductions, with the deduction amount equal to the fair market value of your contribution. Depending on the specifics of the gift, this can significantly reduce the amount of income tax due. However, if your total deductions are not greater than the standard deduction, you should stick with the standard deduction.

Charitable contributions are 100% deductible, although there are limitations against your Adjusted Gross Income (AGI) in a given tax year. These limitations are very high, however, and are unlikely to affect most people. If you contribute more than 20% of your adjusted gross income to private foundations in appreciated securities, or more than 30% to public charities, there are donation limits. If the contribution is made in the form of cash, the deduction is limited to 30% for private foundations, and 60% for public charities, measured in relation to your contribution base.

If you are making a gift as a cash payment, putting the money in the bank or check in the mail constitutes a legal payment. A contribution made on a credit card is deductible when it is charged to your credit card, not when you make a payment to your credit card account. If you're donating a cash amount, it's important to maintain proper documentation of your contributions. The IRS will accept the following proof in an audit situation: canceled check, credit card statement, bank statement, and written acknowledgment from the charity.

When it comes to non-cash donations that involve property or other assets, the situation gets a little more complex. For example, if you give property that has been owned for over a year, the value of the deduction is typically equal to the fair market value of the property. This gives you a significant advantage if you're able to contribute property that has appreciated in value because you get a deduction for the full fair-market amount. You are not taxed on the appreciation, which means you receive a deduction for an amount of money that has never been reported as income.

ESTATE TAXES

An estate tax is charged on the net value of your estate before it is passed on to your heirs. Estate taxes can be complex in the United States as there are a number of exclusions and exemptions. Charitable donations can have a significant effect on estate taxes, with all designated gifts to a qualified charity able to reduce the amount of estate tax due. Unlike income tax deductions, there is no limit as to how much can be deducted from your estate tax.

For example, in a typical charitable giving scenario, all donations that take place upon your death will qualify for estate tax deductions. However, despite the lack of limits for estate taxes, specific directions need to be set in your will or confirmed by another legal arrangement. If you're able to incorporate charitable giving into your financial plan while you are alive, the gifted assets, along with any future appreciation related to these assets, can be removed from your estate.

CAPITAL GAINS

TAX In the United States, capital gains tax has different implications for short-term assets and long-term assets. In the context of

charitable giving, the advantages and disadvantages of donating assets are heavily dependent on the length of ownership and the value of the contribution.

SHORT-TERM ASSETS

All assets owned for one year or less are referred to as short-term assets in the context of charitable giving. If you sell the asset first and donate the sale amount to a charity of your choice, any gain on the sale will be taxed at the ordinary income tax rate.

LONG-TERM ASSETS

Long-term assets include all assets owned for more than a year. While long-term capital gains are dependent upon many factors, these assets are taxed at lower rates. When donating long-term appreciated securities rather than selling them, you will generally be able to eliminate taxes on capital gains.

STRATEGIES FOR CHARITABLE

GIVING

There are numerous philanthropic strategies that make it easier for people to benefit from charitable

giving. A number of different financial vehicles are available, with taxation advantages dependent on the vehicle and financial approach. Along with giving directly to a charitable organization, you can manage a variety of funds, foundations, gifts, and trusts depending on your unique financial situation. Charitable giving can occur in three primary ways:

MONEY

A liquid asset that can be used to exchange goods, debt, or services. Money includes non-physical reserves held in savings and checking accounts, and may include the value of assets that can be easily converted.

PUBLICLY-TRADED SECURITIES

Shares of common stock traded on a national securities exchange. They are a fungible and negotiable financial instrument that holds some type of monetary value.

NON-PUBLICLY TRADED ASSETS

Real assets that are not available for purchase or sale on a public exchange. From property to vehicles to artwork to family heirlooms, assets can be gifted separately or as a component of an investment.



FINANCIAL VEHICLES FOR SMART GIVING

*N*ot all charitable giving is the same, with smart giving decisions associated with significant taxation advantages. While the act of gift giving should never be driven by financial benefits alone, each decision you make does have a range of financial implications. In order to experience these benefits, it's important to utilize various financial vehicles and assets to your advantage.

The following financial vehicles are used for philanthropic strategies, either alone or in combination...



LIFETIME

CHARITABLE

GIVING

A range of financial vehicles is capable of supporting charitable giving strategies while someone is alive.

From cash gifts to donor-advised funds (DAFs) and private foundations, giving to charity while you are alive offers tremendous benefits and detailed financial control. While some giving strategies allow you to generate an income, and others are applicable both during your lifetime and after death, the following scenarios are an example of lifetime giving with no strings attached.

GIFTS OF MONEY, SECURITIES, OR ASSETS

The gift must be to a qualified charitable organization, and certain substantiated requirements must be met. As mentioned above in the taxation section, the contribution amount will have a deductible limit based on the donor's adjusted gross income.

- **Gifts of partial interest in tangible personal property. In this case, a full market value deduction is available with related use up to 50% of the donor's adjusted gross income.**
- **Gifts of money are deductible up to 50% of the donor's adjusted gross income.**
- **Gifts of short-term capital gain securities are deductible up to 50% of the donor's adjusted gross income.**
- **Gifts of long-term capital gain securities are deductible up to 30% of the donor's adjusted gross income, with 50% available under certain conditions.**
- **Gifts of assets are deductible up to 30% of adjusted gross income, or up to 50% if the donor elects to reduce the deduction by 100% of the appreciation amount.**

DONOR-ADVISED FUND

A donor-advised fund (DAF) is a charitable giving vehicle sponsored by a public charity. A DAF allows you to make an irrevocable contribution to a particular charity in a way that makes you eligible for an immediate tax deduction. The ongoing contribution and subsequent grant recommendation process is relatively easy with a DAF, with easy recordkeeping and anonymous donations also possible. The income tax deductions available are 60% for cash and 30% for appreciated assets.

PRIVATE FOUNDATION

A private foundation is a type of charitable organization that starts with a substantial gift. These organizations are typically established by an individual or family, and overseen by a board of directors or trustees. While a private foundation allows you to give during your lifetime, it also allows you to establish a legacy beyond your lifetime. The income tax deductions available are 30% for cash and 20% for appreciated assets. Private foundations require a 5% distribution of assets each year, with investment income exempt from federal income tax but subject to a 1% or 2% excise tax.

GIFTS OF RETIREMENT ACCOUNTS AND PLANS DURING LIFE

Charitable gifts of individual retirement accounts (IRAs) and qualified retirement plans (QRPs) have substantial tax appeal. While retirement accounts and plans are generally subject to income tax, naming a charity as a beneficiary allows them to receive distributions free from income tax. The charitable rollover or qualified charitable distribution was introduced in December 2015, although it is limited to people aged 70 1/2 years or older.

BENEFITS AND CONSIDERATIONS

If you plan on giving to charity during your lifetime, it's important to choose a financial vehicle that works for your individual situation. While cash, check, or credit contributions are the easiest to perform in many regards, they offer limited benefits to the contributor other than substantial tax deductions. Retirement plan donations during your lifetime is another option that allows you to benefit charity organizations and draw on what may be your largest asset.

DAFs are another option that can be established with as little as a few thousand dollars. While the charity has ultimate control over the grants, family DAFs are a great way to create a legacy of charitable giving. If you want to get more involved in your contributions, private foundations can be a great option. While private foundations don't have anonymous financial support options, they are a good choice for anyone who wants to get involved in the grant-making and sponsoring process.

CHARITABLE GIVING WHILE GENERATING AN INCOME

CRTs include both charitable remainder annuity trusts (CRATS) and charitable remainder unitrusts (CRUTS). CLTs include both non-grantor lead trusts and grantor lead trusts.

BENEFITS AND CONSIDERATIONS

CRTs and CLTs both offer philanthropic benefits to charities and financial benefits to contributors. A CRT allows you to preserve the value of highly appreciated assets by selling them within the trust in a way that's exempt from capital gains tax. This arrangement allows you to take a deduction against the income tax or gift tax due based on the trust's assets. With a CRT, investment income is exempt from tax, which also makes it valuable for asset diversification. A CRT is a good option for immediate charitable deductions and ongoing income streams during your lifetime and after death.

A CLT is the opposite of a CRT in many ways, with income generated for the charity and assets protected until they are distributed to the beneficiaries. This arrangement gives donors the freedom to choose terms and donation amounts over time, and may reduce or even eliminate estate tax on property when it's passed down to family members. While CLTs are not tax-exempt and do require ongoing maintenance costs, they are very effective in reducing gift and estate tax, especially in a low interest rate environment.

- **CHARITABLE REMAINDER ANNUITY TRUSTS (CRATS)**
These trusts distribute a fixed annuity amount each year, with additional contributions not allowed.
- **CHARITABLE REMAINDER UNITRUSTS (CRUTS)**
These trusts distribute a fixed percentage based on an annual balance, with additional contributions allowed.
- **NON-GRANTOR LEAD TRUSTS**
Income generated each year is not taxable to the grantor. Instead, the trust pays tax on the income, and the trust claims a charitable deduction when donations are made to charity.
- **GRANTOR LEAD TRUSTS**
The grantor can take an immediate charitable contribution deduction. However, trust income is taxable to the grantor during the term, which means future charitable deductions cannot be offset.



CHARITABLE LEGACY GIVING UPON YOUR DEATH

Charitable giving can occur at any time, both while you are alive and after your death. Charitable legacy planning involves setting up a charity or support structure as part of your legacy. A number of the financial vehicles listed above are also relevant after death, including DAFs, private foundations, and retirement accounts. Retirement accounts and other assets can be a great candidate for charitable giving as the listed charity is not required to pay income taxes, and the estate tax burden for your family is decreased.

Additional vehicles can also be implemented upon death, including wills and many forms of revocable and irrevocable trusts. Life insurance sums can also be gifted to charity organizations, either by listed beneficiaries or as the result of a policy transfer process before death. Regardless of the vehicle used, charitable giving after death benefits worthy organizations while enabling your family members to continue your philanthropic legacy.

MAKING THE MOST OF YOUR *LEGACY*

As you consider your philanthropic strategies, both during life and upon death, it's important to review all of your options. Along with helping worthy organizations to function and create value in the community, you can generate income for yourself and your family, and reduce the taxation burden associated with your income and estate.



About Us

Whether you are starting a new company for yourself, contesting a tax ruling with the government, or managing your family's estate, we bring exceptional experience and advice to help you overcome even the most complex legal obstacles.



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