

2012: A Great Year to be Charitable

Giving to our favorite charitable causes makes us feel good. It feels even better when we get a tax deduction for our contributions, or obtain income from a contribution. Two situations make it particularly advantageous to make sizeable bequests to your favorite charities this year: low interest rates and tax legislation that may expire at the end of this year. I'll show you how you can make giving a true win-win, for you and for your favorite causes.

Donate Your Gains, Skip the Tax

If you have been fortunate enough to have a stock or mutual fund that has done well, consider directly donating some of those shares. You get two benefits: you can claim the full value of the shares as a tax deduction, and you don't pay any capital gains tax on the appreciation of the shares.

This applies to affluent donors who want to set up charitable trusts, but also for those who give smaller donations. In the latter case, you can either make a direct gift of appreciated securities to your charity, or through what are known as "donor advised funds." Offered by several of the major investment firms, you can gift to a donor advised fund as little as \$5,000, take the deduction for that tax year, and then make online donations in current and future years.

Give and Get Income

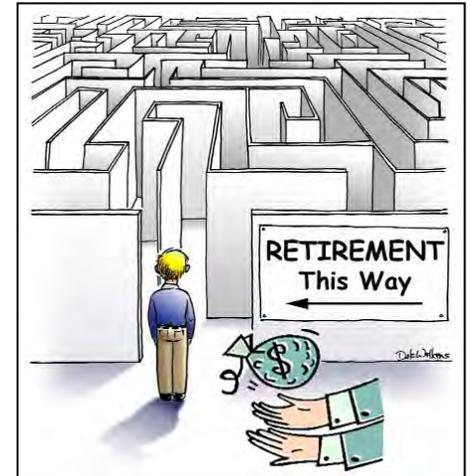
If you're feeling especially munificent but still need additional income off of which to live, consider a charitable remainder trust. These trusts provide income to you for the life of the trust, after which what remains in the trust passes to the charity. It gives you a tax deduction according to an IRS formula, and removes the assets from your estate. There are two versions of this trust:

- Charitable Remainder Unitrust (CRUT) – CRUTs pay out a fixed percentage of the trust annually to you for a fixed period or for your lifetime. A minimum of 10% of the original amount must eventually go to the charity. Depending upon your age and projected investment returns, the charity will determine the appropriate percentage payout.
- Charitable Remainder Annuity Trust (CRAT) – Similar to a CRUT, but pays out a fixed dollar amount for the life of the trust. It provides lower payouts than a CRUT, but usually allows for a higher tax deduction.

Income to Charity, Assets to Heirs

Another type of trust, known as a charitable lead trust, can give you an immediate tax deduction, provide income to your target charity for the life of the trust, and pass the remaining assets to your designated beneficiaries at its termination. Current low interest rates are advantageous here, because any gains on the assets during the life of the trust above what is called the "7520 rate" (currently 1.4%) will go to your beneficiaries free of estate tax. Like the charitable remainder trusts, there are two versions:

Navigating the Retirement Maze



- Charitable Lead Unitrust (CLUT) – The charity receives a fixed percentage of the trust’s value each year for the life of the trust.
- Charitable Lead Annuity Trust (CLAT) – The trust pays a fixed annual gift each year to the charity for the life of the trust.

Caveat Donor

Two cautions regarding charitable trusts. First, make sure that your target charity is eligible to receive tax-deductible donations. Last year, the IRS revoked the tax-exempt status of 275,000 organizations. You can check on the status of your organization on the IRS web site.

Second, you need to make sure that the organization is in adequate financial health, or is using a third party that pools annuitants, so that it doesn’t run into financial difficulties if one annuitant is particularly long-lived. You can check the financials of your charity at GuideStar.org. You should also find out the number of people in the charity’s annuitant pool, or the financial firm that they use to manage the annuities, and how those annuities are managed.

Once you decide how you want to give, find an attorney who is experienced in the nuances of charitable trusts. As the saying goes: “Give, but give wisely.”

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