Making a Difference

Paying It Forward: Philanthropy Matters

CANTERBURY SCHOOL

It Takes a Village, but Not a Fortune

When Warren Buffett made a gift of over $30 billion to the Bill & Melinda Gates Foundation in 2006 and later pledged to give away 99% of his wealth, the size and generosity of these gifts attracted worldwide attention. Fortunately for those with an interest in philanthropy, it doesn't take billions of dollars to make a difference.

Most of us, given the chance, want to leave a lasting reminder of the gratitude we feel for the institutions we love and support. It is a privilege to make a difference—to show, in some way, that we have contributed to important work or played a part in a cause that benefits society, perhaps for generations to come.

We can all give back, but in years past, only the wealthiest were able to create large and lasting legacies. Today, though, thanks to widely held wealth and tax-favored giving opportunities, many more of us can participate in this calling and experience the joy and satisfaction that come from making a difference.

In addition to personal satisfaction, donors are often rewarded with financial and estate planning benefits. With careful planning, donors find they are able to:

- Make a personal statement
- Save taxes (and as a result, perhaps give a larger gift than would otherwise be possible)
- Help shape the future and leave a lasting legacy

There are many planned gift opportunities available. As you consider ways to support our mission, let us help you find rewarding planning strategies with unique combinations of tax savings and personal satisfaction.

Gifts of Cash

Cash is the simplest and most popular way to make a gift. Cash is immediately available to support our programs, and every dollar you give is deductible in the year you make the gift if you itemize.

The income tax charitable deduction cannot exceed 60% of adjusted gross income (AGI) in the year of the gift (100% in 2021). However, any excess can be carried over and deducted for a period of up to five years until it is used up.

Gifts of Marketable Securities

A gift of appreciated stock (held for more than one year) can play an important role in financial and philanthropic planning. Under the right circumstances, giving appreciated stock can allow you to make a significant contribution without affecting cash flow.

Gifts of securities can be made quickly and easily, and the tax benefits affecting both income and capital gains dramatically increase the impact of these gifts. Any gift of stock qualifies for an immediate income tax deduction. A gift of appreciated stock also allows a deduction for the full fair market value, even if the stock was purchased for substantially less. In a sale, such a gain would incur the capital gains tax, but gifting the stock avoids that tax, no matter the amount of the appreciation. Congress provided these important tax rewards to encourage charitable gifts of appreciated property.

If you itemize, the charitable deduction for a gift of long-term appreciated securities cannot exceed 30% of adjusted gross income in the year of the gift. Any excess over 30% may be carried over and deducted for a period of up to five years.

Gifts in Your Will

Making a gift to charity in your will is simple and it lets you retain full use of the property during your lifetime. There is no immediate out-of-pocket cost—you simply direct that when you die, part of your estate will go to one or more of your favorite charities. You have complete control of the gift, which means that if you change your mind, it's easy to change the gift.

Since a gift in your will can take many forms, you have considerable flexibility, too. You can leave a specific asset, a specific sum of money, a percentage of your estate, or what remains of your estate after you have provided for other beneficiaries. You can designate exactly how you want your gift to be used (to honor a beloved relative or a cherished friend) or leave the gift unrestricted so that we can meet our changing needs.

Gifts That Pay Income

You can also make a gift that will pay you a lifetime income. Under a well planned life income arrangement, you can reduce taxes, increase spendable income and, at the same time, make a gift that will have a substantial impact on our future.

Charitable Gift Annuities

Gift annuities have been around for almost 200 years. They are one of the most popular of all planned gifts as they are easy to understand and implement and they provide you with a number of benefits—an immediate income tax deduction (if you itemize), a lifetime income for you and/or your spouse or other beneficiary, and payments that are partially tax free.

A charitable gift annuity is an agreement between one or two donors and us. You transfer assets as a gift to us and, in return, we promise to pay a fixed amount to one or two annuitants for life.

There are many reasons why gift annuities are exceedingly popular. You can implement a gift annuity with a modest contribution. You qualify for an immediate income tax charitable deduction for the gift (subject to AGI limitations) and may be able to spread out capital gains tax liability. What's more, part of each annuity payment may be income tax free. In addition, you can elect a payment arrangement that is convenient to you (annually or quarterly).

A deferred gift annuity offers a higher payout rate and a greater charitable deduction. With a deferred gift annuity in place, you can supplement retirement savings, make a substantial gift, and leave a lasting legacy.

Charitable Remainder Trusts

Another method of generating income and reducing income tax is to make a gift using a charitable remainder trust, which provides remarkable flexibility and important benefits:

- Income for you and/or your beneficiaries for life or a period of up to 20 years
- An immediate and substantial income tax charitable deduction if you itemize
- The potential to avoid current capital gains taxes when you fund the trust with long-term appreciated property
- A reduction in the estate value, which may avoid or reduce transfer taxes
- A reduction of probate fees, settlement costs, and taxes

Subject to yearly limitations, our tax laws allow an immediate income tax deduction for a gift to a charitable remainder trust, even though income will be paid to you (and/or other beneficiaries) for life.

The exact amount of the charitable deduction depends on:

- The value of the property transferred to the trust
- The amount of income benefits payable each year to individual beneficiaries
- The approximate length of time the income benefits will be paid
- The prevailing interest rates at the time of the gift

EXAMPLE: Ellen wants to make a gift to us and supplement her income when she retires. She transfers stock worth $300,000 to a charitable remainder trust and directs that an income of $15,000 a year be paid to her for as long as she lives. The trustee holds and invests the property during Ellen's lifetime and makes the required payments to her each year. When Ellen dies, the trustee pays the remaining trust property to us.

Charitable Lead Trusts

A charitable lead trust is almost a mirror image of a charitable remainder trust. A charitable lead trust pays an annual income to a qualified charitable organization for a specified period of years, and then pays all remaining assets to non-charitable beneficiaries—often children or grandchildren.

A lead trust is a technique for reducing transfer taxes while ultimately passing ownership to family members, particularly for assets that are expected to appreciate significantly while held in trust.

EXAMPLE: In her will, Margo establishes a lead trust with $1,000,000 of stock in a biotech company that she expects will grow significantly. The trust directs that $50,000 be paid to charity each year for ten years after her death, at which point the trustee will transfer the remaining trust assets to Gena, Margo's daughter. Margo's estate can claim an estate tax charitable deduction for the present value of the charity's interest even though Gena ultimately is likely to receive a significant sum of money (especially if the property appreciates as expected while held in trust). Margo has the personal satisfaction of providing $500,000 over ten years to help support a cause she believes in.

IRA Gifts

If you are 70½ or over and own an IRA, you can make a gift using a direct transfer of funds from an IRA to us. Transferred amounts count toward the required minimum distribution if one is due, but no tax is due on the

distribution (up to $100,000 annually). At any time during the year, you simply notify your IRA custodian to make a direct transfer of funds from the IRA to us.

Beneficiary Designations

A beneficiary designation is another way to make a meaningful and flexible charitable gift. It's easy to name us as the beneficiary of a life insurance policy, revocable trust or retirement plan. Making a charitable organization the beneficiary of a retirement plan and leaving other assets to loved ones can provide income tax relief for your heirs and possibly estate tax savings as well.

GIFTS OF RETIREMENT ASSETS

Retirement account assets are highly taxed–once in the estate, and then as income to the beneficiaries. Stocks, bonds, mutual funds, and real estate are not subject to income tax when they transfer to heirs.

By using retirement account assets to make gifts (and leaving other estate assets to family members), you avoid income tax that would otherwise be imposed on retirement assets–leaving more to intended beneficiaries.

Gifts of Real Estate

When you give appreciated real estate to charity, you completely avoid capital gains taxes while deducting the full fair market value of the property as a charitable contribution (assuming that the real estate has been held long term and you are not in the business of buying and selling real estate).

Giving a Fractional Interest in Real Estate
Federal tax laws permit a charitable deduction for gifts of fractional interests in real estate. This type of gift can be especially rewarding if you own a vacation home that you use for only part of the year.

> **EXAMPLE**: Mary and Jim own a $300,000 vacation home that they use in July and August every year. They can give us a 50% interest in the property, secure a tax deduction for the value of our interest in the property, and still have a right to use and occupy the property for up to half the year.

Giving a Remainder Interest in a Personal Residence or Farm
A special provision of the tax law allows an immediate income tax charitable deduction for a gift of a remainder interest in your home or farm. You retain an absolute right to occupy the home or farm for your life (or the life of a family member). The property passes to us only at the end of the life estate.

The charitable deduction allowable for this future gift is the present value of our right to receive the property at some later date. The age of the life tenant is the primary factor in determining the present value of our deferred interest and the charitable deduction. The gift is deductible in the year of the transfer (subject to income limitations).

Gifts of Life Insurance

Many people own life insurance policies they no longer need for family security or liquidity. A good example might be a policy acquired to ensure a child's education, when the child is now out of school. If you give a paid-up life insurance policy, you can deduct the basis of the policy or the replacement value (whichever is less).

Gifts of Closely Held Stock

A charitable gift of closely held stock presents a unique opportunity, especially if the closely held corporation has substantial accumulated profits. After the gift is complete, the corporation can offer to buy back the stock and retire it, as long as there's no requirement that the charity must sell it back to the corporation. Of course, the donor qualifies for a deduction for the fair market value of the closely held stock and there is no capital gains tax no matter how much the stock has appreciated in value.

> **EXAMPLE**: Henry owns 85% of the stock of a successful advertising business worth about $1,000,000. The corporation has substantial accumulated profits, but Henry would realize taxable income if he received these profits as a distribution. Since his basis in the stock is zero, Henry is reluctant to subject $850,000 of appreciation to the capital gains tax. Instead, Henry gives 5% of the corporate stock to us and because he itemizes, he is able to deduct $50,000 as a charitable contribution. Later, we choose to allow the corporation to buy back the stock from us for $50,000. Henry receives a charitable tax deduction and he still owns a controlling interest in the corporation.

Gifts of Tangible Personal Property

Antiques, paintings, collectibles, jewelry, and rare books are prime examples of tangible personal property that individuals may give to charity. The full fair market value is generally deductible provided the asset is used for our charitable exempt purpose. Otherwise, the deduction is limited to the donor's adjusted cost basis.

It is possible that a well planned gift of a collectible may generate a larger capital gains tax savings compared to other long-term appreciated property. Our staff can help you and your advisors plan your gift so that you don't inadvertently lose your maximum tax benefits.

A Final Word

In this introduction to planned giving options, one thing is plain—Congress has provided tax benefits that make charitable giving beneficial to individuals. There are many ways to give, and strategic planning will help you do more for your favorite charities while providing income and enjoying tax reductions. As a result, you can reap tax and financial benefits while experiencing the joy and satisfaction of making a gift that will benefit generations to come.

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