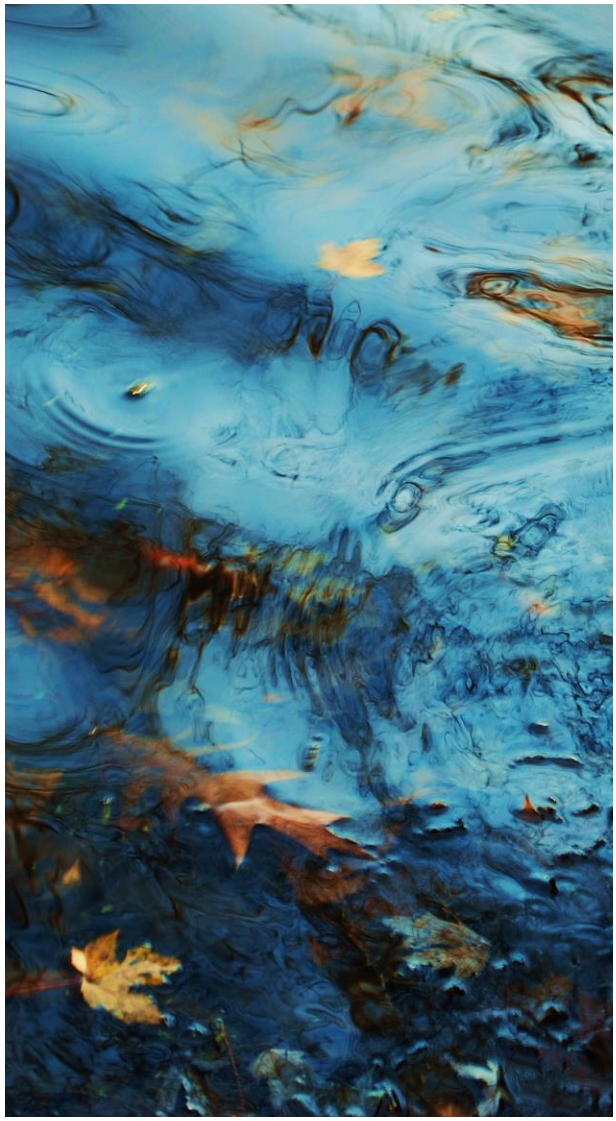
PLANNED GIVING

A Resource Guide



Smalley Investments

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About Smalley Investments

Introduction

The purpose of this resource guide is to help you understand the basics of planned giving – from the reasons why to give, all the way to choosing the most appropriate funding vehicles for your situation. Hopefully this guide will be useful to you. Please understand that this is not intended to be a tool to help you create a planned giving strategy on your own. Instead, it is an overview of the subject of planned giving and will help you to be conversant with the professionals who can guide you in fulfilling your legacy.

If you should have any questions, do not hesitate to contact our office.

Good luck, and good giving!

Joe Smalley

Smalley Investments

Concept 1: Why give?

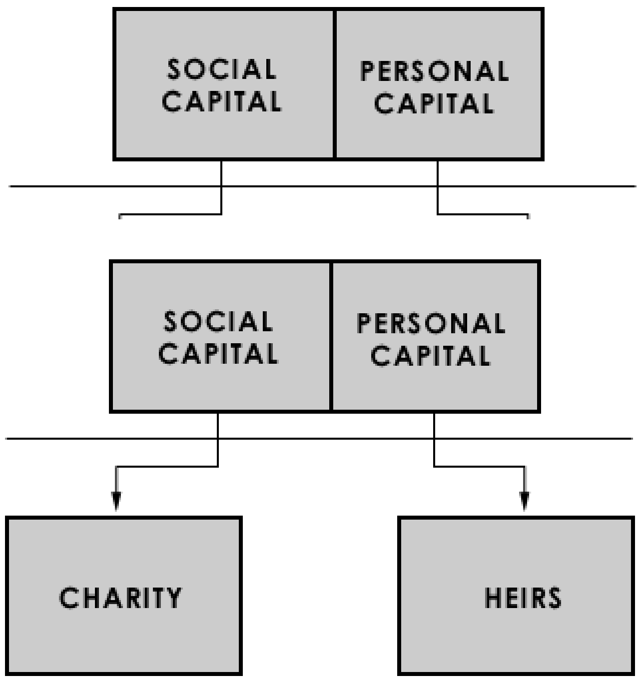
There are many reasons why people give to charities. The most important of which is that an individual or family has a feeling of benevolence and would like to share their wealth with an organization with whom they strongly identify. Another reason why people give is to leave a legacy; that is, a way that they can continue to have a strong impact on our society even after their passing. And yet another important reason that people give is to feel a connection with the community. These are the primary *reasons* why people give. The *benefits* of giving are quite different, however. A feeling of goodness and purpose often comes with giving, which many would say is benefit enough. It is important to realize, however, that there can be some very important tax benefits, as well.

Most people see their estate as one large block of wealth, which is both owned and controlled by them.

TOTAL CAPITAL

Unfortunately, however, this is not really the case. A person's wealth is actually divided into two separate and distinct categories: social capital and personal capital.* The personal capital is what they can pass on to the next generation without restriction, but the social capital is the portion of their wealth that does not really belong to them, even though they have temporary control over it. This is the portion of their wealth that must be allocated to provide benefits to the general welfare of this country. The government has created a special agency to collect this social capital, and its initials are the IRS.

* Peter Tedstrom has written an entire article detailing this in the April 5, 2000 issue of Gift Planner's Digest, which is where these diagrams where first published and this concept is explored in detail.



If you do nothing, all of your social capital could go to the federal government in the form of estate taxes, which can be as high as 55% of the value of an estate. Would you rather choose which organizations you'd like support with your social capital? The good news is that you can. The bad news is that it can get complicated really quickly. The best way to do this is to make sure that you have seasoned professionals who can help you accomplish your goals.

Concept 2: Putting together your team

The most important person on your team, of course, is you. You are the one who needs to call the shots. It is your wishes, desires and goals that we're all trying to accomplish, so we need you to help us understand them so that we can do what you want done.

That being said, an estate plan, or a planned giving strategy should be put together by a qualified estate-planning attorney. I am sure that there are a number of very good lawyers who do work in many areas and who have the legal degree required to draft your estate plan. However, when it comes to matters such as these, I highly recommend using someone who specializes in estate-planning law. If you do not currently have an estate plan, a planned giving strategy, or an estate-planning attorney, please contact me; I would be happy to point you in the right direction.

Another very important member of the team is the person who does your taxes – either a CPA, or a tax-attorney. Again, when dealing with such an important issue, I recommend hiring someone who knows the tax code inside and out. If you do your own taxes, or you have a tax-preparer handle them, I would suggest hiring a qualified Certified Public Accountant in the year in which you gift assets or put together an estate plan.

And yet another key member of the team is your investment and insurance professional. This person will be able to help you purchase the proper vehicles to fund your gifts, to re-register your assets, or to transfer them to the receiving organizations. Again, it is important that this person be familiar with planned giving strategies.

Concept 3: Articulating your strategy

Once you have your team in place, it is important to make sure that everyone knows what you would like to do when it comes to donating assets to your favorite charitable organizations. It is at this point where communication is vital. Many of the professionals have a basic understanding of your financial situation. And each also has a grasp of the benefits that are derived from gifting assets. It is at this point that you must answer some very basic, but potentially challenging questions:

> Which assets do you wish to give away?
> What dollar amounts are you considering gifting?

These may be difficult to answer. You may be thinking to yourself, "Isn't that why all of you are involved? To tell me which assets I *should* give away?"

The answer, of course, is yes. Our job, collectively, is to assist you in developing a strategy that will enable you to give cash, assets or proceeds to your favorite charities, which will benefit them while providing you with a tax benefit. Together, we will help you to determine which of your assets might be most useful in fulfilling your wishes. With your direction, we will be able to do just that.

Step 4: The question of taxes

There are three areas of taxation with which we concern ourselves when handling planned gifts: income tax, gift tax, and estate tax. Each must be considered when making a donation.

Congress has provided various tax incentives to individuals wishing to donate to qualified charitable organizations. These vary depending on the type of gift (cash, appreciated assets), as well as the time-frame in which the gift is received (immediate, deferred).

> For example, an immediate cash gift is 100% deductible in the year that the gift is made. The only restriction is that the deductible portion of the gift must not exceed 50% of the donor's adjusted gross income for that year.*
>
> As another example, for an immediate gift of an appreciated asset (with an associated long-term capital gain), 100% of the fair market value of the gift would be deductible, up to 30% of the donor's adjusted gross income in the year the gift is made. (Note that the donor avoids paying capital gains tax that otherwise would have to be paid if this asset were sold.)*

Many gifts are made with highly appreciated assets, such as stocks, homes, real estate, art, retirement plan assets, etc. The reason being, the donor may gift the asset and receive a tax benefit for the fair market value, while the charity can then sell the asset without having to pay any capital gains tax. This also allows the donor to remove the asset from the estate. By doing so, the donor can reduce the amount of income tax paid in the year of the gift via a tax deduction, avoid paying gift taxes, as they would if the asset were given to a non-charitable organization, and is also able to remove the asset from the estate, thus reducing the amount of estate tax that the heirs would have to pay if the asset remained in the estate. All while helping a cause of their own choice. It almost sounds too good to be true.

Again, these are merely examples of some of the tax advantages associated with planned giving. Certainly, it is not an exhaustive essay on the subject, but it is intended to provide a general overview of the types of tax benefits that can be accomplished with the proper planning. Your situation is unique, but rest assured, your team of professionals will assist you in putting together the appropriate strategy.

* Be sure to consult a tax professional for the specific benefits of each gift, as the tax code changes annually. These examples are just that, examples. They are not intended to be recommended courses of action.

Concept 5: Choosing the right gift vehicle

There are many tools that can be used effectively to provide your gift to the desired charitable organization. It is similar to golf – there are many clubs from which to choose. One could certainly use a driver for a three-foot putt, but it may not be the most effective choice. You team of professionals act like a good caddie – we're here to help you pick the best club for the right shot. After we assess your situation, consider your assets, understand your goals and wishes, we are now able to provide you with the "way" for you to most effectively make your gift.

The following chart provides a brief description, as well as some of the features and benefits for each of the various vehicles, or methods of gifts. Should you have specific questions, please ask one of the professionals for clarification. This chart is provided so that you may better understand the terms used by your team of professionals.

Method	**Description**	**Income for Donor**	**Federal Income & Estate Tax Implications: General Rules**
Charitable Bequest	Donor Leaves charitable gift in will.	No	• Estate tax deduction for value of donation
Charitable Remainder Annuity Trust	Donor and/or other beneficiaries receive payments of a fixed amount determined when the trust is established. *No additional gifts to the trust are allowed.*	Yes, Fixed	• Current income tax deduction for actuarially determined value of gift ultimately passing on to charity • Estate tax liability reduced • Avoid capital gains tax for gifts of appreciated assets
Charitable Lead Trust	Assets are placed in trust, charity receives payment, property is eventually returned to donor, donor's descendants or other non-charitable beneficiary.	No, but transfer of original asset intact	• Income tax benefits vary depending on type of trust • Estate or gift tax liability may be reduced • Avoid capital gains tax for gifts of appreciated securities
Pooled Income Fund	Allows irrevocable gifts from separate donors to be commingled for investment purposes. In return, income beneficiary receives a prorated share of the net income earned by the fund each year. *Additional gifts to the trust are allowed.*	Yes, Variable	• Current income tax deduction for actuarially determined value of gift ultimately passing to charity • Estate tax liability reduced • Avoid capital gains tax liability for gifts of appreciated assets
Charitable Gift Annuity	In exchange for assets, a charity contractually guarantees to pay a specified life income payment to the beneficiaries and charity receives remainder at death of beneficiaries. *No additional gifts are allowed.*	Yes, Fixed	• Current income tax deduction for actuarially determined value of gift ultimately passing to charity • Estate tax liability reduced • Reduce capital gains tax liability for gifts of appreciated assets
Donor- Advised Fund	Public charity that pools donations with other donors' gifts and invests them tax-free; fund makes grants to charitable recipients upon recommendation of donor.	No	• Same income tax deduction as regular cash or property gift • Estate tax liability reduced • Avoid capital gains tax for gifts of appreciated assets

Private Foundation	A private, nonprofit grant making organization that receives most of its funding from one source, usually an individual or family. A minimum amount must be distributed charitably every year.	No	• Deduction for amount of cash donation up to 30% of AGI • Generally, deduction for full fair market value of appreciated property up to 20% of AGI (for gifts made between 7/1/96 and 5/31/97) • Subject to a federal excise tax, usually 2% of annual investment income • Estate tax liability reduced • Avoid capital gains tax for gifts of appreciated assets

Concept 6: The most important concept: choosing a charity

We have discussed in detail the benefits of gifting assets. But the main reason to give is to do good works. To help our community. To make the world a better place. Each of us has a vision as to how we would like to see our society improved. By making a planned gift, we can choose specifically how that is accomplished.

Concept 7: Making sure your wishes are implemented

Once you have put together you team, articulated your strategy, chosen your gift, determined the appropriate way in which to gift, settled on a charity, and finally made you donation, the hard work is over. It is now time to enjoy the feelings of accomplishment and satisfaction in knowing that you are making a significant difference in the world. Every year, or so, make certain to follow up with your team members to see how everything is going. Follow up to see if there is anything further that needs to be done. Some tax deductions can be carried forward if not used entirely in the year in which the gift was made. Be sure that you are fully receiving the appropriate tax benefits for your gift. Also, determine if it might be beneficial to make additional gifts. Now that you have been through the process, it only gets easier.

Congratulations. Your generosity truly touches the lives of so many. On behalf of everyone involved, thank you.

About Smalley Investments

Smalley Investments is a boutique wealth management firm, catering to the special needs of high net-worth clients, non-profit organizations and small businesses. Since 1995, Joe Smalley has guided investors by helping them to determine their goals, articulate what is most important in their lives, and develop an appropriate investment strategy. Joe is proud to offer planned giving guidance to both individual clients, as well as to charitable organizations.

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