

Stevens Point Journal Column: Charitable giving can increase family's wealth

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The tax laws offer valuable opportunities to those who care to seek them out.

For example, here's how you might use a charitable gift to increase the amount of wealth you can transfer to your heirs. Taking advantage of this opportunity involves three steps: creating a charitable trust to generate a substantial income-tax benefit, buying life insurance with the tax savings and letting the proceeds replace the donated assets that otherwise would have passed to your heirs. The result can be a substantial increase in the amount you will be able to leave to your children or other heirs free of estate taxes (before repeal of the estate tax scheduled for 2010), as well as the gratifying feeling that you have supported a cause you favor.

A charitable trust can separate the timing of your philanthropic gift from its financial benefits to you. With a charitable remainder trust, you arrange to make a future donation -- of cash, appreciated securities or other assets -- to a tax-qualified charitable organization of your choice. You place the gift assets in the hands of a trustee for a term you choose. This can be up to 20 years, or for your lifetime or the lifetime of you and a beneficiary. When the term ends, the trustee pays the trust's principal to the charitable organization. But, during the term, you receive income from the trust.

The trust arrangement generates a substantial, immediate income-tax deduction in the amount of your future gift's present value -- a percentage of the trust assets' total value. This present value, calculated using IRS tables, is the current fair market value less the actuarial present value of all the income payments expected to be made from the trust. The shorter the term you choose or the lower the payments you receive, the higher the deduction for your gift becomes.

You can use the tax savings derived from creating the trust to obtain life insurance. As your situation requires, the policy's death benefit may be payable after your death or after the deaths of both you and your spouse (a second-to-die policy). The death benefit is not subject to estate taxes if a properly structured life insurance trust is used. Insurance benefits are free of income taxes to the receiving beneficiaries. Therefore, the policy will provide your children or other heirs with tax-free assets that replace, or more than replace, the funds you have donated.

By making a charitable donation during your lifetime, you will remove the assets from your future estate and, thus, protect them from the potential effects of estate taxes. Taxable estate value beyond the amount that is sheltered by each individual's effective exemption amount is subject to estate taxes. (In 2008, the exemption will shelter up to \$2 million of taxable assets.) The exemption rises to \$3.5 million in 2009.

Taking advantage of a charitable remainder trust requires the assistance of legal and tax professionals who can evaluate whether this type of trust would be a good strategy in your circumstances and determine the best combination of term, payments, and policy.

If you want to learn more about how a charitable trust can increase the wealth that passes to your children, please contact the Lions Pride Campaign Office at 715-677-7000 or visit our website at www.lionspride.org.

This article provides insights from M&I Wealth Management that may be useful to you in assessing risks and opportunities in the current environment related to your financial and wealth planning needs. The information contained herein should not be construed as tax, legal or investment advice, and readers are encouraged to consult their tax, legal and investment professionals with specific questions applicable to their own financial situations.

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