PFS PHYSICIANS FINANCIAL SERVICES

ClientAdvisor

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Leave a Legacy, Build a Benefit

Charitable Planning can fund an important mission while providing tangible tax advantages

Charitable giving is an American tradition. Most charitable organizations share the goal of improving quality of life, and philanthropy is a major source of funding for humanitarian causes, religion, education and the fine and performing arts.

Philanthropy provides significant emotional, psychological, and financial advantages and can help you pass on values to family members about wealth and helping others and keep you engaged and informed about issues that are important to you.

Philanthropy can also provide tax benefits while doing good, and even be paired to offset the tax liability of other income streams through innovative planning.

Think beyond cash

Cash and checkbook giving are some of the most common ways to donate to a charity. However, there are alternative assets to consider that may enable you to give a larger contribution to charity while also enjoying a greater tax benefit for yourself. These include stocks, bonds, mutual fund shares, private or restricted stock or shares of a privately owned business, and real estate.

Donating long-term appreciated assets is a smart charitable planning strategy because you are generally entitled to the full fair market value (FMV) tax deduction at the time of your gift. Also, you may be able to eliminate capital gains taxes when you give these assets directly. Through these combined tax saving opportunities, you may be able to give more to charity compared to selling the asset and donating the cash proceeds.

Tax advantages

More generally, the federal government has established a variety of tax incentives to encourage charitable giving. In most cases, you're entitled to a deduction amount equal to the fair market value of your contribution. These incentives may reduce your income tax, capital gains tax and/or estate taxes.

Charitable donations made to a qualified charity are tax deductible and may reduce the amount of income tax due. However, you are limited to deducting up to 50% of your Adjusted Gross Income (AGI) to public charities and 30% AGI to private foundations. Alternatively, for appreciated securities, 30% of your AGI can be offset by donating to public charities and 20% of AGI to private foundations.

You can carry forward deductions exceeding these limits for up to five years, although you are required to use as much of your present-year deductions as you can each year. There may be special circumstances and limits when contributing both cash and appreciated assets that warrant consulting with a tax professional.

Charitable donations to a qualified charity can also be used to reduce the estate tax, if applicable. Unlike income tax deductions, there is no limit to how much can be deducted from your estate tax. Typically, donations that qualify for estate tax deductions happen at your death according to the directions set in your will or other legal arrangement. You may also want to consider incorporating charitable giving

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into your financial plan during your lifetime, as a charitable gift while you are living removes the gifted assets (and any future appreciation related to those assets) from your estate.

Special Charitable Projects paired for tax-advantages (offsetting other gains)

We regularly receive information on special programs from law firms, CPAs, consultants, and industry specialists. Certain charitable projects fund a benefit to war torn, poverty stricken, or low-income area. They also create a significant charitable deduction, offsetting other gains in a portfolio.

Charitable projects vary year to year. More details are available upon request.

Philanthropic Strategies & Charitable Vehicles

Though giving directly to a charitable organization is one of the most common ways to contribute, it is not the only option. Several strategies and vehicles exist, each with its own potential benefits and considerations. Choosing the right approach for your situation can help you give more effectively and efficiently.

A **Donor Advised Fund (DAF**) is a charitable giving vehicle sponsored by a public charity that allows you to make an irrevocable contribution to that charity and be eligible for an immediate tax deduction. You can then recommend grants over time to any IRS-qualified public charity. The initial contribution used to establish a DAF can be minimal compared to other giving vehicles. Establishing a donor-advised fund can be a particularly useful strategy to offset a year with unexpectedly high earnings or to address the tax implications of year-end bonuses. It allows you to take a tax deduction immediately and provides flexibility for granting to additional charities in the future.

Because donor-advised funds can be established with an initial contribution as low as a few thousand dollars, they are a great choice for many of our doctors. Not only do doctors choose DAFs to support strategic giving for themselves, but they also establish DAFs in the name of their families to continue the legacy of philanthropic giving.

In contrast, a **Private Foundation** is a charitable organization typically established by an individual or family with a substantial initial gift. Private foundations are overseen by a board of directors or trustees responsible for receiving charitable contributions, managing and investing charitable assets and making grants to other charitable organizations. Individuals interested in becoming more immersed in the execution of their giving strategies including operating an organization, potentially hiring a staff

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and investment managers, actively managing grant-making and sponsoring charitable events are good candidates for a private foundation.

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Best of both worlds: charitable giving while generating income

Some charitable solutions can support dual objectives of generating income while also pursuing philanthropic goals. Charitable trusts offer flexibility and some control over your intended charitable contributions as well as lifetime income, thereby helping with retirement, estate planning and tax management.

Essentially, there are two different types of charitable trusts. Both types of trusts "split" the assets between charitable and non-charitable beneficiaries. Which type you choose depends on your priorities with respect to estate planning and wealth preservation and how you want the charity to receive the gift. Note: the named non-charitable beneficiary will pay income tax on the income received.

The **Charitable Remainder Trust (CRT)** is a good option if you want an immediate charitable deduction but also have a need for an income stream to yourself or another person. If you set instructions to establish a CRT at your death, it is also a good option to provide for heirs, with the remainder going to charities of your choosing. The **Charitable Lead Trust (CLT)** is the inverse— it's ideal if you want to pass appreciated property to heirs and reduce gift and estate tax consequences, but are comfortable parting with the income for a number of years by way of donating to charity in return for estate and gift tax savings.

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Some combine strategies of using a charitable trust with a DAF for greater flexibility. If you make the beneficiary of a charitable trust a public charity that sponsors a DAF, you can more easily adjust and recommend grants through the DAF.

This strategy provides greater flexibility with charitable granting at a significantly lower cost than amending a charitable trust, which may be prohibited.

Community Foundations

Finally, a Community Foundation is a public charity that typically focuses on supporting a geographical area or a specific cause. It facilitates donations from people to support a variety of programs in that area. Community foundations offer numerous types of programs, frequently including donor-advised funds, endowments, scholarships, field of interest funds, etc. Community foundations may also allow for both national and international granting depending on the focus.

Charity Legacy Planning

Many people have the goal to extend their tradition of giving beyond their lifetime. As you plan for philanthropic support as part of your legacy, a charity (including a DAF) can be named as the beneficiary of a will or a revocable or irrevocable trust. Vehicles such as DAFs and private foundations can also be used to enable family members to continue philanthropy aft er your lifetime, thereby furthering your charitable legacy across generations.

Retirement assets may be good candidates for charitable bequests after death, because they can be among the highest taxed assets in any estate. Leaving your retirement assets to a charity offers two distinct advantages: it increases the impact of your bequest, as the charity is not required to pay income taxes on donations from retirement account assets, and; it decreases the estate tax burden for your family. Your retirement assets pass directly to the charitable organization, so the distribution to charity is generally deductible due to the unlimited estate tax charitable deduction.

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Leveraged Life Insurance for Charitable Giving

Leveraged Life utilizes funds borrowed from a third-party lender to finance insurance premiums and forms an irrevocable insurance trust (ILIT) as the policy owner and borrower. Premium financed life reduces the client's tax expenditures as no income or gift taxes are incurred when purchasing the policy, upon death the loan is repaid, and the trust is left with the original death benefit to help fund the charitable endowment. This is a tax-efficient way to assure income tax- free and estate tax-free delivery of capital dollars. Highly rated insurance companies and some of the largest private banks are utilized for this approach.

The charitable endowment can also be part of our Permanent Endowment Program. Once funded, this involves perpetually multiplying, inter-generational endowments for family members and non-profit organizations, independently managed.

How to get started

Consider your values, life experiences, interests and close relationships to help decide and create a personal charitable mission statement to guide your giving. A charitable mission statement is typically one to three sentences that put the purpose of your giving into words.

There are resources that can help you feel confident in your giving decisions. Here are a few to get you started:

Charity Navigator: Thousands of charities are rated on a numbers-based system by a team of analysts.

Give.org: The website of the Better Business Bureau's Wise Giving Alliance produces reports about national charities.

GuideStar: Easily compare charities and gain access to their financial information. If the organization does not have a website, this is another place you can look to learn about its mission.

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Schedule a Consultation **Schedule a Client Review**

IRS Guidelines for Tax-Exempt Organizations

To be tax-exempt under section 501(c)(3) of the Internal Revenue Code, an organization must be organized and operated exclusively for exempt purposes set forth in section 501(c)(3), and none of its earnings may inure to any private shareholder or individual. In addition, it may not be an action organization, i.e., it may not attempt to influence legislation as a substantial part of its activities and it may not participate in any campaign activity for or against political candidates.

Organizations described in section 501(c)(3) are commonly referred to as charitable organizations and, other than testing for public safety organizations, are eligible to receive tax-deductible contributions in accordance with Code section 170. The organization must not be organized or operated for the benefit of private interests, and no part of a section 501(c)(3) organization's net earnings may inure to the benefit of any private shareholder or individual. If the organization engages in an excess benefit transaction with a person having substantial influence over the organization, an excise tax may be imposed on the person and any organization managers agreeing to the transaction. Section 501(c)(3) organizations are restricted in how much political and legislative (lobbying) activities they may conduct.