MorganStanley
SmithBarney

Volume 9, No.2
Spring, 2012

Giving

A newsletter for nonprofits, endowments and foundations

Historically, philanthropy often did not begin until late in the career and life of the benefactor. But more recently this has changed, in many cases, with the creation of so much wealth at younger ages. Benefactors also increasingly want to see the impact of their gifts and share the charitable process with their children.

If you would like additional copies of "Strategies for Charitable Giving" to distribute to friends of your agency, please call us.

Susan C. Yelen, CIMA®, CRPS, CFP®
Senior Vice President -- Financial Advisor
Sr. Investment Management Consultant

Richard J. Hazzouri, CFA
Vice President -- Financial Advisor
Sr. Investment Management Consultant

THE YELEN HAZZOURI GROUP
at
Morgan Stanley Smith Barney LLC
Cross Creek Pointe
1065 Highway 315
Wilkes-Barre, PA 18702
Member SIPC

(570) 821-1800
(800) 342-2393 U.S.
Fax (570) 822-2303

www.fa.smithbarney.com/yelenhazzourigroup

Strategies for Charitable Giving

SUMMARY

Giving can help make the world a better place for ourselves, our children and future generations. Additionally, a well-structured charitable plan can provide benefits to the causes you care about for generations to come. What follows is an introduction to different charitable giving strategies, including some of the financial and estate-planning issues associated with them. Your Financial Advisor can work with your attorney and tax advisor to help you make the most of these strategies.

Q. What is a direct gift to charity?
A. You can make an outright gift during your lifetime or leave it through your will as a bequest. Donations to charity often include various types of assets, such as cash and securities, as direct gifts. A gift to a capital campaign is one example of a popular type of direct gift.

Q. Will I receive a deduction for my direct gift?
A. Direct lifetime gifts may entitle you to a charitable income tax deduction, depending on your income level. For those whose income level qualifies, deductions are generally allowed for up to 50% of the donor's adjusted gross income (AGI), assuming the gift is cash and made to a public charity. Gifts of long-term appreciated property offer potential deductions of up to 30% of AGI. Any part

property to a charity upon death. When the deed is recorded (according to the laws of the state in which you reside at the time), you may be entitled to a charitable income tax deduction for the fair market value of the property, less the value of your right to use the property for the rest of your life. The fair market value of the property at death is normally excluded from your estate.

Q. What are split interest vehicles and how do they benefit donors?

A. Split interest vehicles are used to designate two beneficiaries: a current beneficiary and a remainder beneficiary. The current beneficiary receives an annual payout stream from the trust, typically you during your lifetime. The remainder beneficiary receives the assets left in the trust at the conclusion of its term. Here is a description of the four major types of split interest vehicles.

Charitable Gift Annuities. A charitable gift annuity is a special type of agreement designed to provide you with the benefits of a traditional annuity while giving the underlying asset to charity. In exchange for a gift of cash or securities (some states allow the gift of closely-held stock or property), you would receive annuity payments for life from your selected charity. The lifetime annuity payments will start at the time of your choosing. Typically, you would receive an income tax deduction equal to the gift given to charity, less the present value of the lifetime annuity payouts. Each annuity payment to you would be, generally, partially income-tax-free. If the gift is a long-term capital gain asset, such as publicly traded stock, the annuity payouts you receive may be partially income-tax-free, partially taxed as ordinary income and partially taxed as long-term capital gain. Many charitable gift annuity programs permit donations as low as $10,000.

Charitable Remainder Trusts. A charitable remainder trust (CRT) is a tax-advantaged vehicle that enables you, as donor, to give to charity, diversify assets and receive annual payouts. If you have been holding onto appreciated assets for fear of paying a high capital gains tax, you could transfer the assets to a CRT and possibly avoid immediate capital gains on the transfer. In addition, the trust would provide you with an annual payout stream. At the end of the payout term, the remainder of the assets would be left to charity.

Creating a CRT could provide you with an income tax deduction as well. The deduction would be based on the fair market value of the gift, less the present value of your payout stream. It would also be determined by the nature of the gift, the type of charity receiving the gift and your AGI. There may be income tax due on the annual payouts to you. As donor, you determine the term of the trust, which can last for your lifetime, or for a fixed term of up to 20 years. You can also choose the level of annual payouts to be paid by the trust. Typically, the maximum payout rate depends upon the length of the trust or the life expectancies of the income recipients, but it cannot exceed 50%; the minimum payout is 5%. When your payout term ends (often at death), whatever is left in the trust is distributed to the charity (or charities) of your choice.

Charitable Lead Trusts. Charitable lead trusts (CLTs) are generally more attractive in periods of low interest rates. A CLT works as follows: You would fund the trust, preferably with an asset expected to appreciate; the charity receives a fixed annual payout from the trust; and the remainder goes to your beneficiaries at the end of the charity's payout term. The primary benefit of a CLT lies in its gift tax consequences. The value of the donor's initial gift to the trust is determined by a government-set rate, the term of the trust and the payout to charity. When the government-set rate is low, the value of the donor's gift is reduced for gift-tax purposes. Unlike charitable remainder trusts, CLTs are not tax-exempt entities. Depending on the type of CLT, you may be able to take a charitable income tax deduction at the time you make the gift; either you, as donor, or the trust must pay capital gains tax when the charity sells the trust assets; or you or the trust must pay income tax on any income generated in the trust.

Pooled-Income Funds. A pooled-income fund allows you to "pool" together cash or securities to create one large gift for charity. The charity then reinvests these assets as a pool, similar to traditional mutual funds.

Techniques of Charitable Giving

	Charitable Gift Annuity	Pooled-Income Fund	Charitable Remainder Trust	Private Foundation	Donor-Advised Fund
Cost to Set Up	None	None	Moderate	High	None
Cost to Maintain	None	None	Moderate	High	Low
Generates Income	Yes	Yes	Yes	No	No
High Control	No	No	Yes	Yes	Yes
High Complexity	No	No	Yes	Yes	No

For Illustrative Purposes Only