



Planned Giving Opportunities

A brief guide to the tax advantages

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Planned giving is as easy as (1) making a charitable gift and, (2) saving taxes. We'd like to make it even easier with this primer on some of the best ways to give- and save.

GIFTS OF CASH

Gifts of cash are fully deductible- up to a maximum of 50% of the donor's gross adjusted income. For example, if a donor's gross adjusted income for the year is \$50,000, up to \$25,000 of charitable gifts may be deducted in that year. Any excess can generally be carried forward and deducted over as many as five subsequent years.

GIFTS OF STOCK

If a donor owns stock, it is more often tax-wise to contribute stock than cash. This is because gifts of appreciated securities offer a two-fold tax saving. First, the donor avoids paying any capital-gains tax on the increase in the value of the stock. Second, the donor receives an income-tax deduction for the full market value of the stock at the time of the gift.

For example:

If a donor purchased securities many years back for \$2,000, and those same securities are currently worth \$20,000, an outright gift of those securities would generate a charitable deduction of the full \$20,000. Additionally, there is no tax on the \$18,000 appreciation of the value.

To benefit from these tax advantages, the donated securities must have been held by the donor(s) for at least one year.

Gifts of appreciated securities are fully deductible up to a maximum of 30% of the donor(s) gross income. Any excess can generally be carried forward and deducted over as many as five subsequent years.

Note: Donors should always consult with accountants or tax advisors for the advantages (and potential drawbacks) of making a planned gift, based upon their particular circumstances.

GIFTS OF LIFE INSURANCE

A gift of life insurance can provide a significant charitable deduction. Donors can purchase a new policy or contribute a policy that is currently owned, but no longer needed. To receive a charitable donation, designate SHELTER, Inc. as both the owner and the beneficiary of the life-insurance policy. Donors should check with insurance agents for details.

For example:

Mr. Brown owns a \$250,000 life-insurance policy with a current cash value of \$75,678. By transferring the policy to SHELTER, Inc. as the new owner and beneficiary, Mr. Brown receives a current charitable deduction of \$75,678. As the donor continues to pay the premiums after the donation is made, these subsequent premium payments are tax-deductible each year.

GIFTS OF REAL ESTATE

Gifts of real estate can also be tax-wise. A residence, vacation home, farm, acreage or vacant lot may have appreciated so greatly in value through the years that it's sale would mean a sizeable capital-gains tax. By making a gift of this property as an alternative, donors would avoid the capital-gains tax, and, simultaneously, receive a charitable deduction for the full fair market value of the asset.

Donors can also make a gift of their home, farm or vacation home so that the donors can continue to use it for it's lifetime, all the while receiving current income-tax deductions.

For example:

Mr. and Mrs. Brown own a vacation home by the lake that they would like to continue using. Its fair-market value is \$150,000. By donating the home to SHELTER, Inc. now, but retaining the right to use it for the remainder of their lifetimes, the Browns are able to achieve a current income-tax charitable-contribution deduction of approximately \$62,500. (The exact amount will depend upon the Browns' ages and the useful life of the house, among other factors.)

LIFE INCOME GIFTS

(How to increase income, receive a charitable deduction, and avoid capital-gains taxes)

If donors own stock that is yielding low dividends (2-3%), a life-income gift may be appropriate. Donors could transfer the stock to SHELTER, Inc. and establish a

Charitable Remainder Unitrust or Charitable Remainder Annuity Unitrust that would yield a 5% or greater annual return. The income would be paid to the donors or a designee for life, after which the assets would be distributed to SHELTER, Inc. outright. Through such an arrangement, donors would be increasing potential income all the while making meaningful (and tax-deductible) contributions.

For example:

Mrs. Brown, age 67, purchased securities many years back for \$10,000 and those same securities are today worth \$100,000. The dividend yield for these securities is 2% annually, and thus she receives \$2,000 per year. By transferring the securities to a charitable remainder trust and specifying that she wants a 6% return for life, she could:

- 1. Triple her annual income (from the current \$2,000 to \$6,000);*
- 2. Avoid the capital-gains tax otherwise incurred on the sale of the securities, and;*
- 3. Be entitled to a charitable-contribution deduction of approximately \$54,000 (the amount depends on the age of the donor, the rate of return specified in the trust and the size of the gift, among other factors.)*

CHARITABLE LEAD TRUSTS

Charitable lead trusts are the reverse of the life-income gifts described previously. The income from the trust is first paid to SHELTER, Inc. as the charity's interest leads the way (thus the name of the trust.)

Under this arrangement, donors transfer assets to a trustee who makes payments to SHELTER, Inc. (and potentially other charities) for a pre-determined number of years, after which the assets are transferred to the donors' heirs. The charitable lead trust allows donors to pass assets on to their children and grandchildren either completely free or free of all estate and gift taxes.

BEQUESTS

SHELTER, Inc. can be named as a beneficiary in donors' wills in any number of simple ways. An outright gift, either a designated dollar amount or percentage of an estate, can be specified. SHELTER, Inc. could be named as a remainder beneficiary to receive funds only after specific funds have been paid to individual beneficiaries.

Note: It may be helpful to know that donors can easily add SHELTER, Inc. to their wills through an amendment to the will called a codicil; thus the entire will does not need to be redrafted.

IN CONCLUSION

This guide cannot tell potential donors everything they need to know about the concepts of planned giving and which methods would be the most advantageous for any particular financial and estate-planning situation. Attorneys, accountants and tax advisors should be consulted to better understand how these rules apply to a given situation. Not all the available methods of giving could be included in this brochure, and not all of the tax ramifications of each gift vehicle could be discussed.

SHELTER, Inc.'s Development Office would be pleased to provide you with additional information on the advantages of gift planning.

This information is for general purposes only and is not intended as legal or financial advice. SHELTER, Inc. recommends that each person considering a planned gift consult with her or his own legal or financial advisor.

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