Smart Personal Planning Strategies

Rush County Community Foundation

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The Foundation of Rush County's Future

Long-Term Strategies

Smart personal planning means understanding how to achieve financial, personal and philanthropic goals. It means thinking about how to maintain a current lifestyle, keep up with investments, and take advantage of sound tax planning. It also means exploring creative gift plans that provide financial and tax benefits while helping you make satisfying gifts to charity.

While most tax planning takes place at year end, recent and continuing tax changes mean we need to expand our frame of reference beyond short-term results. Let's look at some longer-term strategies that can help you achieve personal planning objectives.

Personal Tax Deductions

Current income tax rules provide taxpayers with deductions for certain expenses, payments and contributions. For some items, expenses must exceed a dollar threshold for the deduction to apply, so timing can be critical. Here are some basic ideas to be aware of when approaching income tax planning:

Interest: Some interest payments you make are deductible—for example, certain business expenses. If you are in a high-income year, you may want to seek professional advice on accelerating deductible interest payments prior to the end of your tax year.

Medical and dental expenses: Most out-of-pocket expenses for medical, dental and vision care are deductible if they exceed certain thresholds of adjusted gross income (AGI).

State and Local Taxes: Several types of state and local taxes are deductible. One option is to deduct either state and local income tax, or state and local sales tax (not both). Other options include deducting state and local real property taxes or personal property taxes.

Losses: Investment losses are deductible against investment gains. If you have incurred capital losses, it may be a good time to rebalance your portfolio. You can sell appreciated stock or other equities and offset the capital gains with your deductible losses.

Charitable contributions: Perhaps the most important deduction for many people is the deduction for charitable contributions. There are many ways to give to charity, and all are well worth exploring, as they can provide significant tax savings and other financial benefits.

Keep the Pease Limitation in Mind

This provision means taxpayers gradually lose itemized deductions as their adjusted gross income rises over a threshold amount—a reduction of either 3% of AGI above a certain level or 80% of the total amount of deductions, whichever is less.

Your tax advisor can answer questions about all these deduction rules.

Maximizing Tax Savings With a Gift of Stock

Prudent investing includes understanding how to balance risk and reward. When priorities change, so should investment strategies. If you plan to sell or trade stocks, it may be a good time to consider a gift of stock. Giving stock is an opportunity to align financial and charitable goals in a tax-efficient way.

There is a double tax advantage to giving an outright gift of appreciated stock. First, you can take a regular income tax deduction equal to the stock's fair market value for a gift of stock you held for more than one year. Second, you avoid all capital gains tax on the transfer.

> **EXAMPLE:** Joe usually gives us a check for $7,500 at year end. This year, he thinks about the double tax advantage of giving appreciated stock. He purchased 100 shares of stock years ago for $3,000. Those shares are now valued at $7,500. Joe thought about selling the stock earlier in the year, but didn't want to pay the capital gains tax (in his tax bracket, it would be over $1,000). Now, he decides to give the stock to us.

Congress included this double tax advantage in the income tax laws to encourage gifts of appreciated stock. Yet, surprisingly, many investors remain unaware of this benefit and fail to take advantage of this opportunity.

	Gift of cash	**Gift of stock**
Joe's gift	$7,500	$7,500
Income tax savings in Joe's 39.6% tax bracket	$2,970	$2,970
Capital gains tax savings (23.8% of $4,500 gain)*	0	$1,071
Total tax savings	$2,970	$4,041
After-tax cost of Joe's $7,500 gift	$4,530	$3,459

**This example takes into account the 3.8% surtax on net investment income, which is added to the capital gains tax rate of 20% for a total of 23.8%.*

Funding Life Income Plans With Stock: Tax Savings Plus an Income Stream

A gift of stock can be used to fund a life income plan such as a charitable remainder trust or a charitable gift annuity.

Charitable Remainder Trust

A charitable remainder trust provides an income stream to one or more beneficiaries for a set number of years or for life, then distributes the remainder to a charitable organization. The present value of that future remainder expected to go to charity provides an income tax deduction for the person who creates the trust. Let's look at an example featuring a charitable remainder annuity trust (CRAT).

Joy (age 78) purchased 400 shares of stock 20 years ago for $75,000. Today, the stock is worth $450,000. Joy is receiving $9,000 a year in dividends, but she would like more income. After discussing matters with her advisors, Joy decides to use the stock to fund a charitable remainder annuity trust and she names us as the beneficiary.

Joy transfers the appreciated stock to a charitable remainder annuity trust that will pay her $22,500 (5%) a year and also give rise to an income tax charitable deduction of $292,217 (based on an AFR of 2.0%). Joy's charitable deduction will result in tax savings of about $115,718 in her 39.6% tax bracket. Plus, Joy can reduce the $89,250 capital gains tax that she would have owed ($375,000 gain x 23.8%) had she sold the stock. We will receive the principal of the trust at her death. Joy appreciates the substantial financial and tax benefits, and is delighted to know that her gift will have an impact on our work.

Charitable Gift Annuity

A charitable gift annuity is a simpler arrangement that follows the same principle and can also be funded with appreciated stock. A gift annuity is a split gift—part charitable gift and part annuity purchase. When you fund a gift annuity, we agree to pay a percentage of the gift amount on a regular basis to one or two beneficiaries for life. The gift portion creates an immediate income tax deduction for you and the annuity portion provides a lifetime income based on the age of the annuitant(s) and the total amount donated to charity. (You can choose to name any person as the annuitant).

Real Estate: This Old House Becomes an Opportune Gift

There are many different ways to make a gift of real estate.

- **Outright Gift**—directly transfer the title to us and receive a substantial income tax deduction.
- **Bargain Sale**—sell your home to us for less than its fair market value and receive a deduction for the gift portion (the difference between the selling price and the fair market value).
- **Gift of a Remainder Interest**—give your house to us, but retain the right to live in it as long as you want—even for life—while receiving an immediate income tax deduction for the present value of our remainder interest (the appraised value of the house minus your life estate in the property).
- **Life Income Gift**—transfer the real estate into a charitable remainder trust or a charitable gift annuity to make a gift and create an income stream.

Social Security

Social Security was originally designed to provide a safety net to keep older Americans from falling into poverty, and many retirees continue to depend on it. However, affluent retirees are able to save that money, use it to help their children, or give all or part of this income to charity.

There are many ways to include Social Security income in your retirement and charitable planning.

- **Make an outright gift** of your Social Security payment to our organization and claim an income tax deduction.
- **Purchase a charitable gift annuity** at the end of the year with your collected monthly Social Security payments. Buying charitable gift annuities every year is a strategy known as laddering—as you grow older, you will likely earn a greater payout rate for each successive annuity.
- **Contribute to a charitable remainder unitrust (CRUT)** at the end of the year with your collected monthly Social Security payments. A CRUT is an irrevocable trust that pays a percentage of the value of the trust assets (as re-valued each year) to a lifetime beneficiary—either you or someone you name. At the conclusion of the trust, remaining assets are distributed to a charitable organization. After you create the CRUT, you

can make additional contributions that increase the value of the trust, and you can take an income tax deduction for the present value of the expected remainder from each contribution.

- **Contribute to an existing endowment** using your Social Security payments. This is a creative way to multiply the impact of your gift, since an endowment spends only a percentage of the total value (or the interest from its funds) so that your gift continues to support your favorite programs year after year.

With careful planning, Social Security income can support our mission and provide you with valuable tax benefits.

The Next Step

Each family and every situation is different.
We invite you to contact us with your questions or concerns or for a more detailed discussion of the various strategies we've outlined here. It would be our privilege to help you explore the role philanthropy can play in meeting your overall planning, retirement, or year-end goals.

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MISSION:
The Rush County Community Foundation is a nonprofit public charity established in 1991 to serve donors, award grants and scholarships, and provide leadership to enrich and enhance the quality of life in Rush County, Indiana, not only today, but for generations to come.