

## Thanks for Your Help — *Private Gifts Make a Difference*

We are proud of our mission, and we know that our successes could never have happened without the support of so many of our friends. Thoughtful donors always look for ways to make their influence more keenly felt. They want to see measurable results in the programs they support, and they want to learn how to get the most out of their charitable dollars.

While cash gifts are always welcome and can be put to immediate use, gifts of other assets can sometimes be more beneficial to both the donor and our organization. One of the most popular assets to give is appreciated stock — yet, surprisingly, many of our friends are not fully aware of the advantages of giving appreciated stock.

In this issue of *Visions*, we put the spotlight on gifts of stock. We also have a booklet, *Gifts of Property — Opportunities and Benefits*, available to you that highlights more details and illustrations. You can receive a free copy by simply using the enclosed card. We hope you enjoy this issue and want to extend our sincerest thanks for your past support.



**Heritage Club and Endowment/Gift Planning Services Committee members L to R: Michael J. Bergquist, JD, CFP®, of Michael J. Bergquist Financial & Estate Planning, Tim Gamble, V.P. of Northern Trust Bank, and Marilyn Anticouni, Esq.**

# visions IN PERSONAL PLANNING

## **A Great Gift Idea Made Better by Financial and Tax Benefits**

A gift of stock presents a real value for donors who want to magnify the impact of their gift. An outright gift of stock can create a timely income tax deduction. Plus, a charitable gift of stock may provide a way to avoid the capital gains tax. The double tax benefit makes a stock gift especially attractive.

### **Consider the Life Income Gift Plan**

Stocks can also be used to fund life income gift plans — a tax-efficient way to convert stock that produces little income into a source of regular income. Ask us about the opportunities available to you and how your gift makes a difference.

## The Outright Gift of Stock: Why It's So Attractive

The outright gift of stock has become an attractive way to give to a charity because of this double tax benefit: one, the eligible tax deduction for the fair market value of the gift; and two, the avoidance of potential federal capital gains taxation.

**For example:** You have decided to make a charitable gift of 100 shares of XYZ stock with a current value of \$5,000. You purchased the 100 shares of stock back in 1998 for \$1,000. For this tax year, you may deduct \$5,000 as your gift to the charity. And, you avoid the tax on the \$4,000 of long-term capital gains that would be due if you had sold the stock — a savings of \$600. These two tax benefits work in tandem to produce a lower after-tax cost for the gift than if you had sold the stock on the open market and given the proceeds to our organization.

### Comparison of a Gift of Cash versus a Gift of Stock

|                           | Cash Gift      | Stock Gift     |
|---------------------------|----------------|----------------|
| Gift amount               | \$5,000        | \$5,000        |
| Charitable tax savings*   | \$1,650        | \$1,650        |
| Capital gains tax savings | \$0            | \$600          |
| <b>Cost of gift</b>       | <b>\$3,350</b> | <b>\$2,750</b> |

Both gifts are equally effective and greatly appreciated...but a stock gift can be made at a lower cost to you. And we can make immediate use of a gift of stock as well as a cash gift.

\*Savings for a taxpayer in a 33% tax bracket ( $\$5,000 \times .33 = \$1,650$ ).

### How Do You Select the Best Stock to Give?

There are no hard and fast rules for selecting a stock as a charitable gift. The best choice depends on your portfolio and investment strategy. Here are general rules that may help:

- 1 Choose a stock that you have owned for more than one year (you can take the full fair market value as a deduction for stock held long-term).
- 2 Choose a stock with the greatest amount of appreciation.
- 3 Choose a stock that has an over-weighted position in your portfolio. Giving this stock allows you to both lighten your position and receive valuable tax relief.
- 4 Be sure not to make a charitable gift of stock for tax considerations alone. A charitable deduction is an incentive, but not the sole reason to give to worthwhile charities.

## Other Appreciated Assets Can Make Smart Gifts

A gift of stock is a popular choice for donors, but gifts of other long-term appreciated assets such as mutual fund shares, bonds and closely held stock can also be very attractive. In fact, a gift of closely-held stock can be particularly tax advantageous when used to fund life income gift plans. Since most closely held stock has no cost-basis, the capital gains taxes seem unavoidable except, perhaps, through a charitable gift. Depending on your situation, there may be other substantial tax benefits as well. Ask us about this important but frequently overlooked gift opportunity.

Another potential asset for a charitable gift that has enjoyed recent attention is real estate. Real property such as vacation homes, condos, commercial property and farmland can make exceptionally fine charitable gifts, either outright or to fund life income plans. Keep in mind that such gifts usually require more time to implement. It is also very important that any proposed gift of real estate will benefit both the donor and our organization.

We are happy to discuss any potential gift idea that you are exploring. Please contact our offices to discuss the possibilities, or send for our booklet, *Gifts of Property — Opportunities and Benefits*.

## Two Tested Life Income Gift Plans That Might Work for You

A **charitable remainder trust** is a unique kind of irrevocable trust in which the donor, or one or more individuals designated by the donor, receive(s) income from the trust for a designated period, after which the trust terminates and the trust corpus is distributed to one or more charities. The donor receives a charitable deduction in the year of the gift for the expected value of the remainder interest.

A **charitable gift annuity** is an arrangement whereby the donor makes a gift to charity and receives a lifetime (or joint lifetime) income based on the age(s) of the annuitant(s).

## How to Get More Out of Your Stocks through Life Income Gift Plans

Appreciated stocks or some part of a financial portfolio are often used to fund life income gift plans such as the charitable remainder trust and charitable gift annuities. Consider that there

is little or no trouble with valuing a stock that is used to fund a gift plan. Most importantly, consider the substantial benefits that can be yours:

- an income payment that can be fixed or variable (depending on your choice of gift plan)
- an income for life or a term of years
- income for yourself or a loved one
- an income tax charitable deduction
- preferential tax treatment for the capital gains on the transfer of the stock

Life-income gift plans may provide a great way to convert a stock holding that produces little income into a good, predictable stream of income.



## Two Attractive Charitable Solutions with Life Income Plans

### 1. Unlock highly appreciated, low-yielding investments and increase your income

If you participated in the roaring stock market of the late 1990's, you may still have appreciated stocks that have risen in value high above what you paid for the stock. Even so, your stocks may not pay much in the way of dividends. Suppose you now want more income as you move into retirement. You could sell your stock and reinvest to achieve a higher yield, but you will likely face the 15 percent capital gains tax liability. But, if you are charitably motivated, a better strategy might be to fund one of our life income gift plans with that same stock. You receive all the benefits listed above (annual income, charitable deduction, and favorable capital gains tax treatment) and you have the personal satisfaction of knowing that your gift will make a difference for our organization.

*Example:* Irene Jones (age 80) owns \$25,000 in stock that typically pays a dividend of \$500 every year. Irene is interested in realizing a greater annual income from that asset, but is not sure that she wants to sell stock just to reinvest in another stock. Also, Irene is interested in making more than the usual annual gift to our organization. After discussing options with our office of development, Irene learns that it is possible to contribute the \$25,000 to a charitable gift annuity that

provides her an 8 percent annual payout, or \$2,000 a year. About 2/3 of Irene's payout will be income tax-free until she reaches her life expectancy in ten years. She also will receive a generous charitable deduction of about \$12,000 on her income taxes for the current tax year. Of course, Irene is pleased that her gift annuity will ultimately help us to continue our mission — a happy arrangement for everyone!

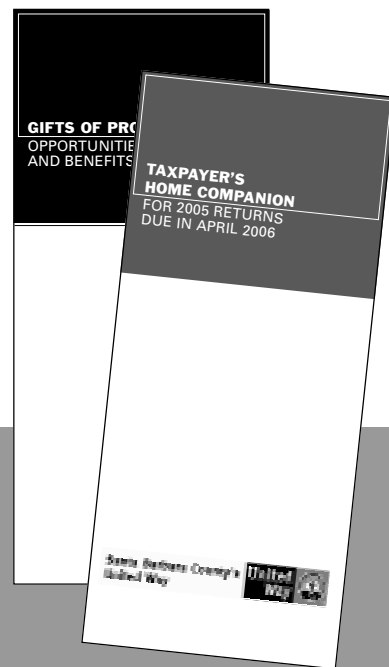
## 2. Restore balance in your portfolio

If you are approaching retirement, or already enjoying retirement, you may prefer a more conservative portfolio. Let's say your investment objective is to have a mix of 60 percent equities and 40 percent fixed income. Perhaps you have drifted to a higher percentage in equities as the markets have recently improved. Now that interest rates have begun a slow climb, fixed income vehicles look more attractive. But to sell the stocks to rebalance your investment portfolio may trigger unwanted capital gains taxes. You can use a life income gift plan such as a charitable remainder trust to avoid the tax, rebalance your portfolio and, at the same time, make an impact gift to further our good work — another good example of how charitable giving can be coordinated to help achieve personal financial planning objectives as well.

## How to Learn More

Charitable gifts play an important role in helping us maintain our mission. And charitable gifts provide major tax benefits for you as a generous donor. It's easy to find out how you can benefit from an outright gift of property or a life income gift plan. We have a booklet, *Gifts of Property — Opportunities and Benefits*, which features timely suggestions from which you may benefit. To receive a free copy of our booklet, complete the short reply form or contact us directly. If you act today, we will also send you a complimentary copy of the *2005 Taxpayer's Home Companion*, a valuable compendium of tax facts and tax saving suggestions you can share with your financial advisors. We'll be happy to answer any of your questions, or even send you a no-cost, no-obligation proposal which spells out your tax and financial benefits. Your inquiries will receive prompt attention.

The 2005 *Taxpayer's Home Companion*  
and *Gifts of Appreciated Property*



**Santa Barbara County's  
United Way**



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