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Having your cake and eating it, too!

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Tax attorneys, CPAs, and financial planners have emphasized the importance of charitable planning for years. Not only can an individual's charitable objectives be met — but significant taxes can be saved.

Charitable planning does not have to be overly complex or complicated. There are available to every individual some very simple and basic techniques that will accomplish charitable objectives and save taxes!

LIFE INSURANCE: It is not uncommon for an individual to name a charitable organization as the beneficiary of a policy of insurance on his or her life. Upon the individual's death, 100 percent of the death proceeds qualify for an estate tax charitable deduction. What is missing with this arrangement is the opportunity of obtaining some lifetime benefit.

Charitable planners recommend that the charity not only be the beneficiary of the policy, but also the owner of the policy. In this situation, the annual premium cost is deductible for income tax purposes as a charitable contribution, and the death proceeds are excluded from the individual's estate because the charitable organization owns the policy of life insurance.

STOCK IN FAMILY BUSINESS: We are all familiar with gifts of appreciated publicly-traded stock to a charitable organization.

No gain is realized on the transfer, and an income tax charitable deduction equal to the appreciated value of the stock is allowed. Why can't an individual do the same with stock in his or her family business?

There is no prohibition to such a plan as long as there is no prearrangement for the business to buy-back its stock. A subsequent purchase of the stock by the business, or even another stockholder, is perfectly legitimate.

Perhaps the biggest problem with this charitable planning technique is placing a value on the stock in an individual's family business. This problem is typically overcome by coupling the charitable gift with an event where the stock in the family business must be valued for other purposes. Such events might include the purchase of a minority shareholder's stock; the sale of stock to children for estate planning purposes; the gifting of non-voting stock to family members, etc.

EDUCATING GRANDCHILDREN: In appropriate circumstances, the use of a charitable remainder trust and gifts of appreciated publicly-traded stock or land has numerous benefits with few disadvantages. The avoidance of a capital gains tax upon the sale of the stock or land; a current income tax charitable deduction; and the retention of an income stream for life are the selling points of such an arrangement where assets of significant value are involved.

But, what about the use of a "poor man's charitable remainder trust" - the charitable gift annuity? With this charitable planning technique, cash or appreciated assets are contributed directly to the charitable organization in exchange for a lifetime annuity. Capital gains are avoided, an income tax deduction secured; and an income stream retained. No charitable trust with its legal and accounting complexities is needed.

A slight variation of this planning technique may be particularly attractive to grandparents who are assisting with the education of their grandchildren. A charitable gift annuity can be established for a term of years - say from age 12 to 22 years - with the annuity not to be paid to the grandparent, but instead to the grandchild. The grandparent avoids a capital gains tax and secures an income tax deduction and the grandchild has an income stream for 10 years to assist with his or her college education. (It should be noted that the grandparent has also made a gift to the grandchild, but it is likely without gift tax consequence.)

GIFT OF HOME OR FARM: In this day and time, an individual's home has often become a major asset of his or her estate. Classical homes located in classical neighborhoods are often in great demand by young two-career families. These homes, once referred to as "white elephants," are now the hottest status symbol on the market.

In appropriate circumstances, older couples may see the advantages of not burdening their children with the worries of selling a home after their deaths or possibly creating family conflict or disharmony. The gift of the family home to a charitable organization while retaining the right to live there for life is a perfect solution to this family dilemma. The older couple (or individual) obtains an immediate income tax charitable deduction, continues to live in their residence as they always have and removes this valuable asset from their estate upon death. Of course, if the charitable organization is so inclined, any of the children can purchase the old family home from the charitable organization, possibly utilizing other inherited monies.

This charitable planning technique is also particularly attractive to the "gentleman farmer." Often to his chagrin, his wife and children may have no interest in his little forty acres of heaven. The charitable gift and retained lifetime utilization are ideal to avoid what otherwise might be a confusing family situation.

The above charitable planning techniques are simple and basic. They do not involve overly complex or complicated legal documents or accounting procedures. **AND,** most importantly, they represent planning possibilities where an individual may have his or her cake and eat it, too!

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