

Helping Your Clients Leverage Their Assets & Maximize Advantages of Charitable Giving



American Endowment Foundation (AEF)

www.AEFonline.org

Laura J Malone 877-599-8903

lauramalone@AEFonline.org

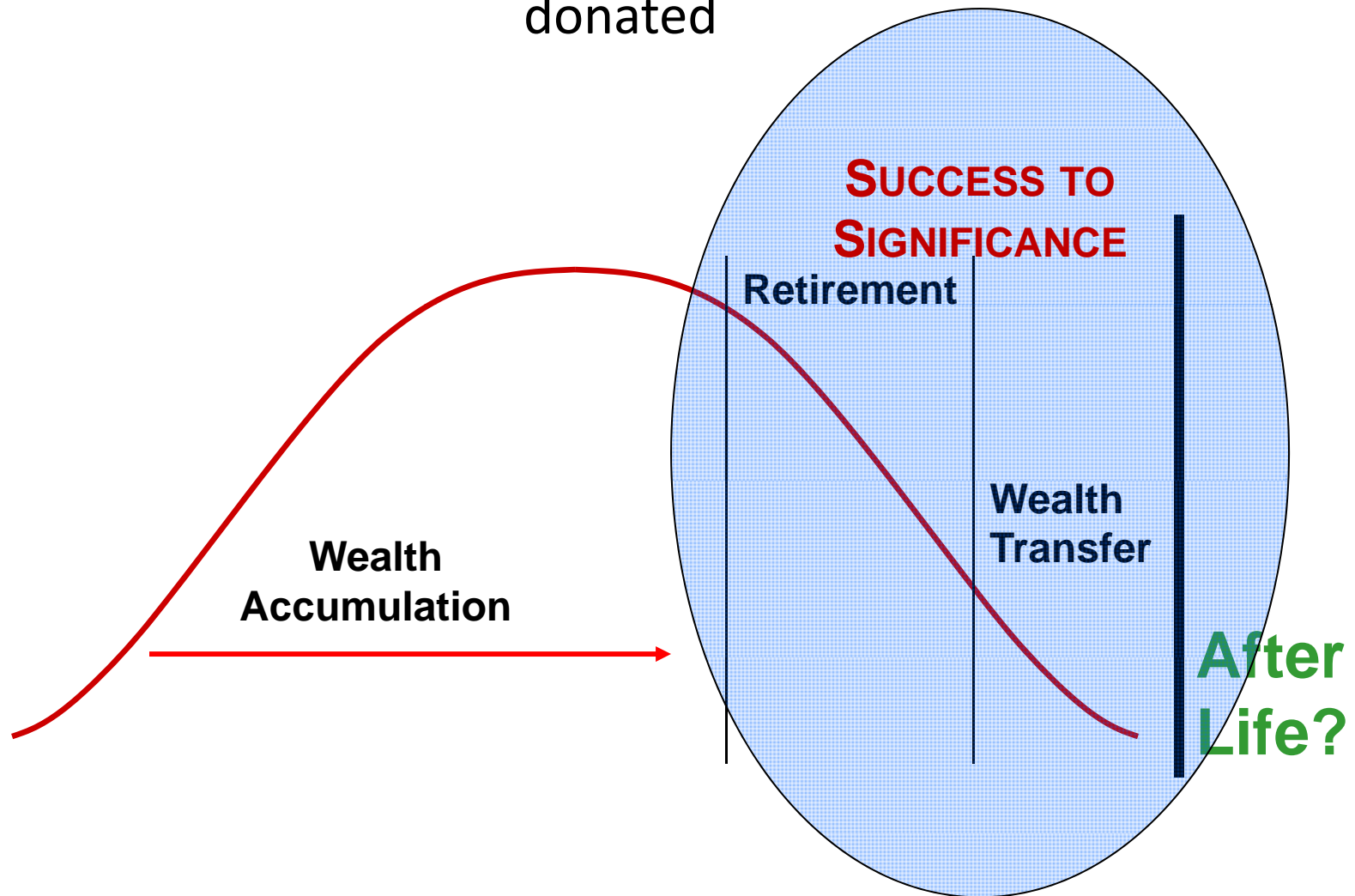


What Will Be Discussed

- Wealth Transfer Wave
- Family, Philanthropy & Government
- Private Foundation VS Donor Advised Fund OR Both?
- How a Donor Advised Fund Works
- Strategies
 - S-Corp Stock Gifts
 - Real Estate & C-Corp Stock Gifts
 - CRT Beneficiary
 - CLT Beneficiary
 - Life Insurance
 - Charitable IRA Rollover
- Notable Differences Among DAF Providers

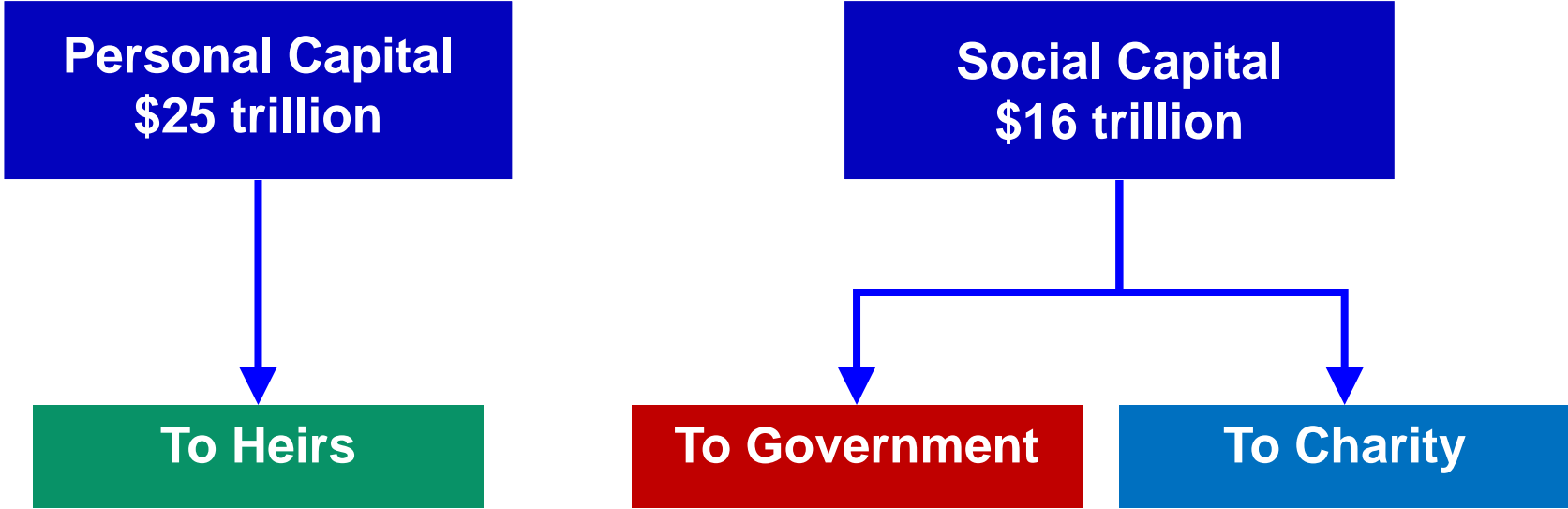
The Wealth Transfer Wave

2008: Taxpayers 55+ gave 51% of the charitable dollars donated



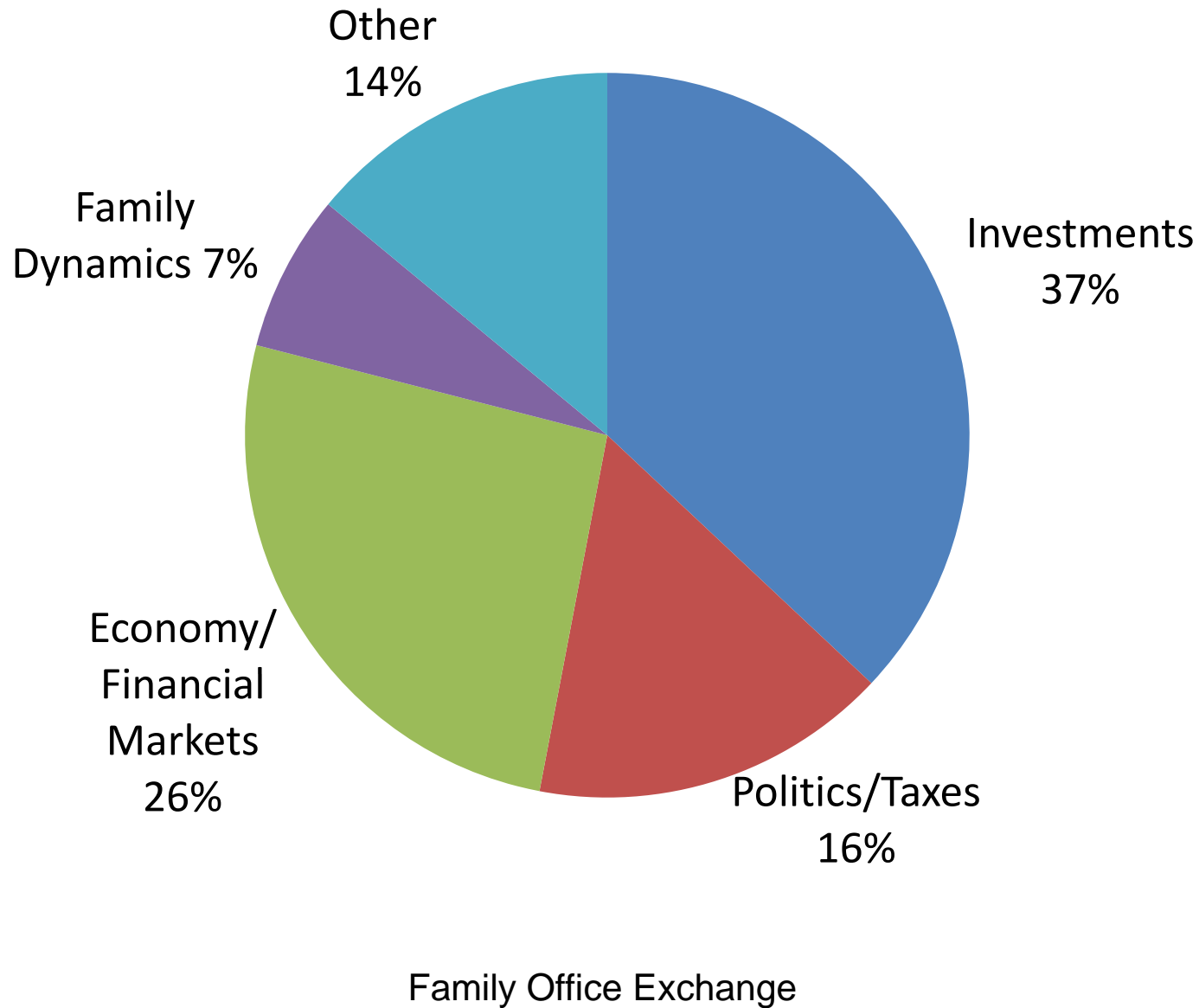
Future Wealth Transfer Estimated at \$41 Trillion

12.2% Donations Non-Financial Assets

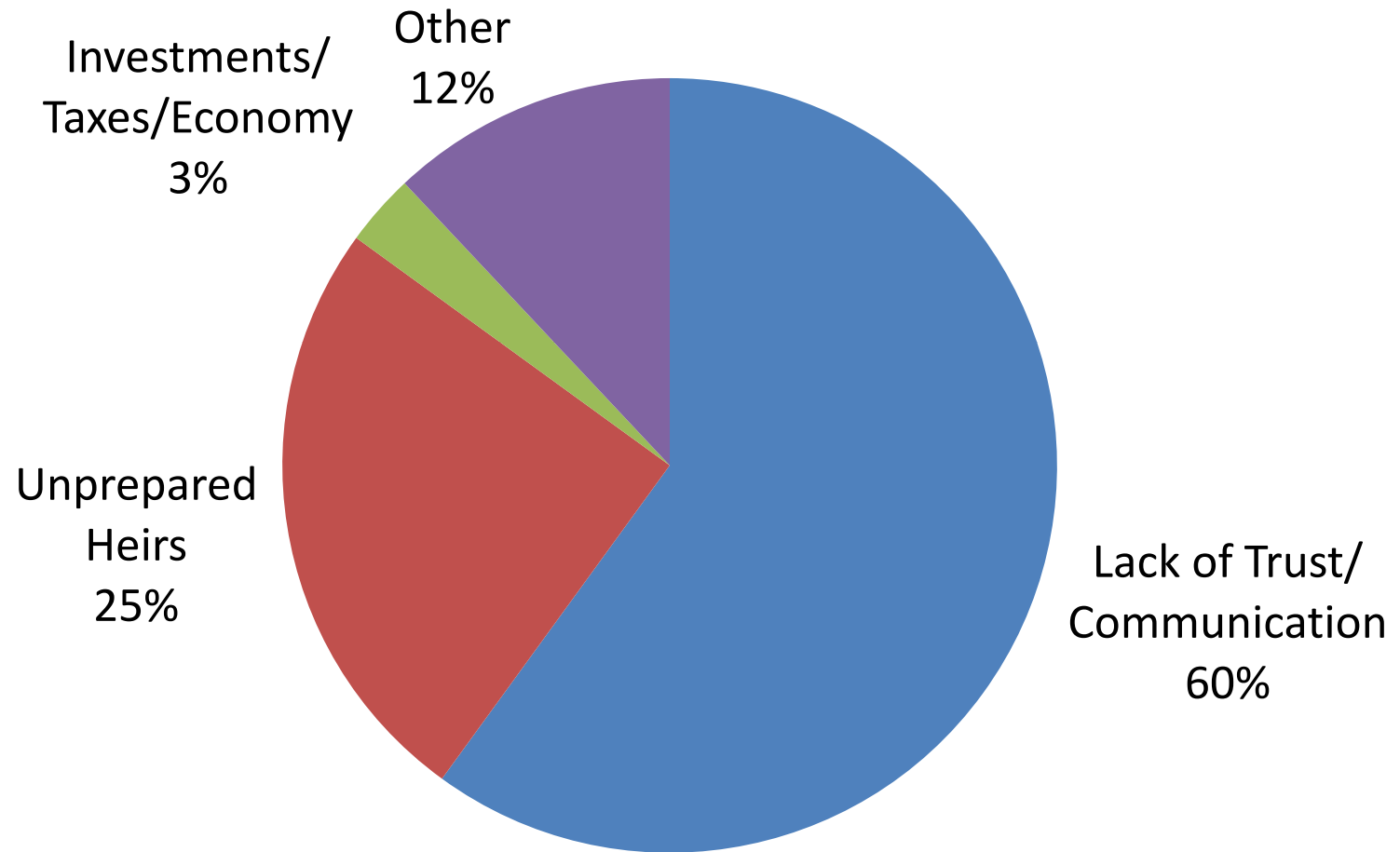


Individuals have a choice - Pay the government or redirect those dollars to charities of their choice.

What They Think Will “Bite” Them



What “Bit” Them



What Is a Donor Advised Fund?

Donor Advised Fund



A family foundation alternative which allows donors to:

- create a charitable investment account on preferred investment platform**
- qualify for best tax benefits available
- support their favorite charities on a flexible timetable

** Please consult with your DAF provider

DAF Setup - How it works

Account is opened in the name of AEF fbo "Client's Foundation"

Donor makes irrevocable contribution (\$10K or more)

Donor advises on investments, grants, succession

Donor can make grants when convenient

Depending on DAF Sponsor, Client's trusted advisor MAY or MAYNOT have the same investment flexibility as with the client's personal assets

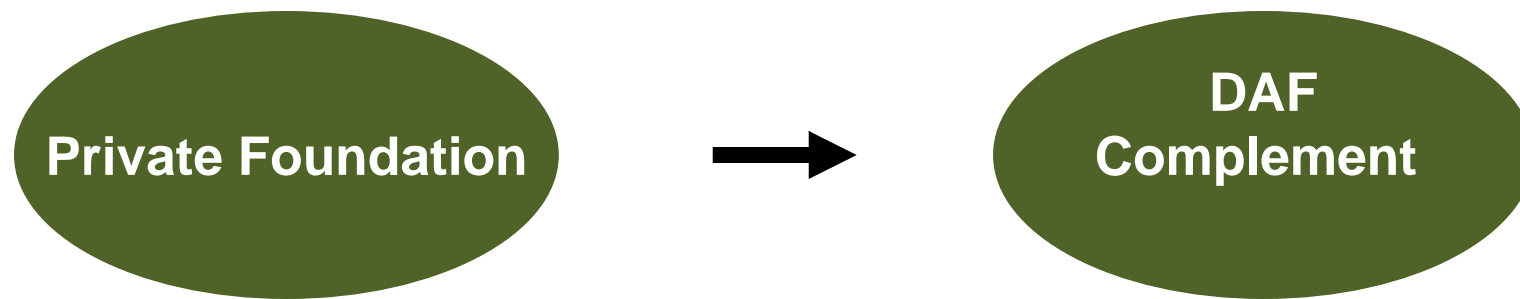
Private Foundation vs. DAF

PRIVATE FOUNDATION	DONOR ADVISED FUND
Substantial time and start up / administrative costs	No set up costs and only a small annual administration fee
Market value only for cash or publicly traded securities; deduction for other gifts is generally their cost basis	Income tax deduction equals the fair market value of gift for most assets
<ul style="list-style-type: none"> • Up to 30% AGI for cash contribution • Up to 20% AGI for long-term Appreciated property / investments • Taxes on "Net Investment Income" (IRC §4940) 	<ul style="list-style-type: none"> • Up to 50% AGI for cash contribution • Up to 30% AGI for long-term Appreciated property / investments • No Taxes on Income
Private Foundation tax returns and donor's names are public record	Donor can either recognition or complete anonymity in their giving

When a Private Foundation May Be Best

- Grants directly to families or individuals
- Program related investments with for-profit companies doing a charitable mission
- Ability to hire family or staff
- Ability to reimburse expenses

Strategy: Private Foundation Complement



Maximize tax deduction on new asset contribution

Grant outside of mission /
Resolve family or Trustee conflicts

Anonymous grantmaking

Use a small amount to create a DAF first -
“Test drive” whether all the costs and hassles of a PF can be avoided

Cash Vs. Managed Assets

Gifts of Cash		Gifts of Appreciated Assets	
Cash Contribution	\$10,000	FMV of Asset	\$10,000
Expected Marginal Tax Rate	28%	Amount Paid for Asset	\$5,000
Income Tax SAVED	\$2,800	Expected Marginal Tax Rate	28%
Estimated After Tax Cost of Gift	\$7,200	Expected Capital Gains Tax Rate	15%
		Income Tax SAVED	\$2,800
		Capital Gains Tax SAVED	\$750
		Estimated After Tax Cost of Gift	\$6,450

Between \$2.2 and \$4.5 billion could be saved each year in taxes by donating appreciated securities.

The Unique Problem with S-Corp Shares

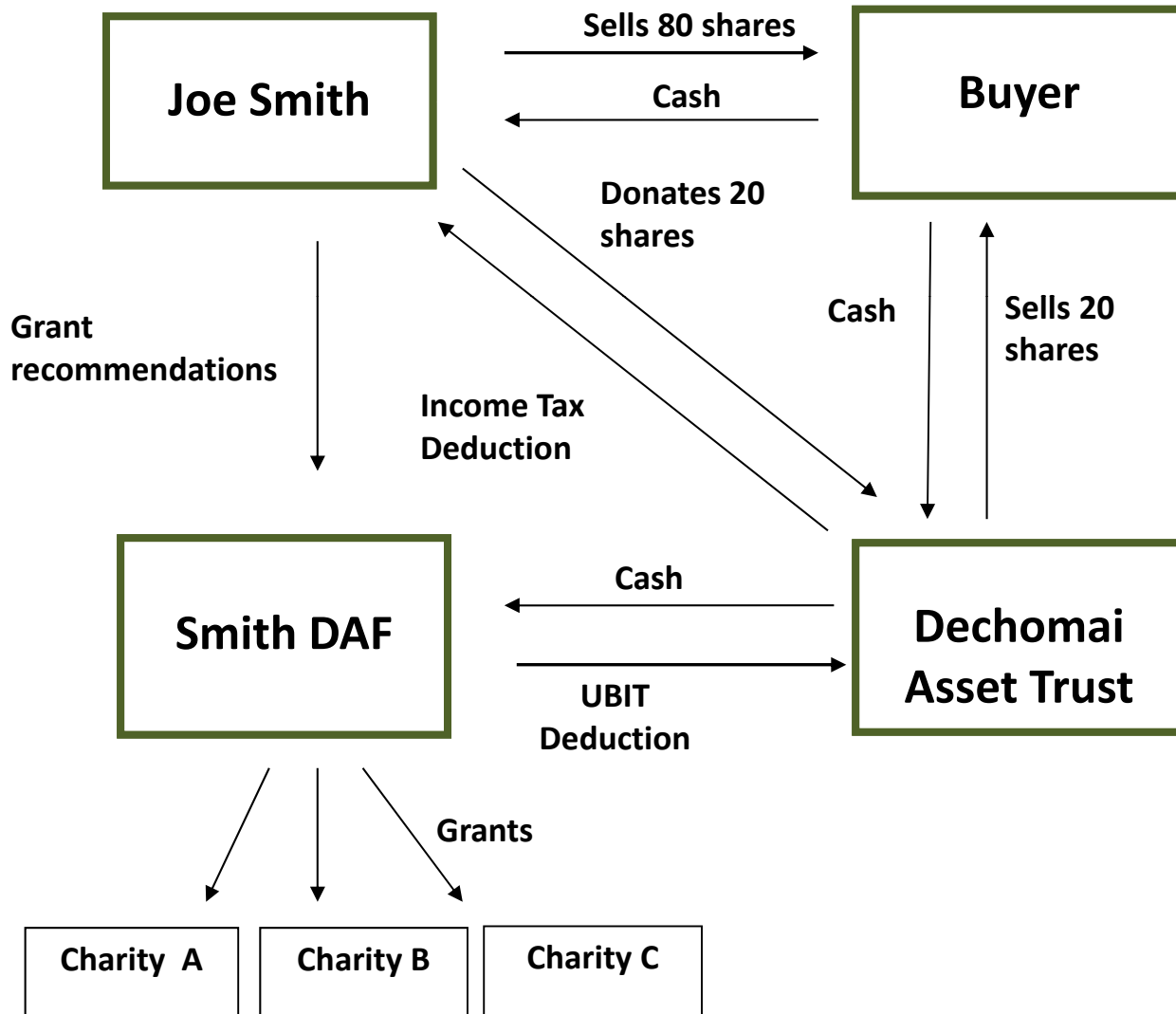
Income Tax deduction:

- Fair Market Value deduction can be achieved by gifting to a Public Charity or Donor Advised Fund
 - If shares contributed to a private foundation, donor's deduction limited to cost basis.

Concerns to consider:

- Charity takes on donor's cost basis.
- Charity pays tax (UBIT) on gain when shares are sold.
- Charity's UBIT rate on gain based on how the charity is formed:
 - If corporate form = corporate ordinary income rate of 35% (most charities are in corporate form).
 - If trust form = capital gains rate of 15%.

How the Strategy Works



4 Scenario Summary

	1	2	3	4
	Client Sells Shares, Then Gives Proceeds to DAF	Client Gives Shares to DAT, Then DAT Grants Net Proceeds to DAF	Client Gives to a Corporate Form Public Charity	Client Gives to a Private Found.
Donor Tax Savings Less Taxes Paid	600,000	2,000,000	2,000,000	0
Total Amount Left for Charitable Giving	4,000,000	4,475,000	3,425,000	3,425,000

Assumptions:

S-Corp Shares FMV	\$5,000,000
Cost Basis	-0-
Federal Tax (Ordinary Income)	35%
Federal Tax Rate (Capital gains)	15%
State Income Tax	5%

Real Estate Strategy

(or Closely-held C-Corp Shares)



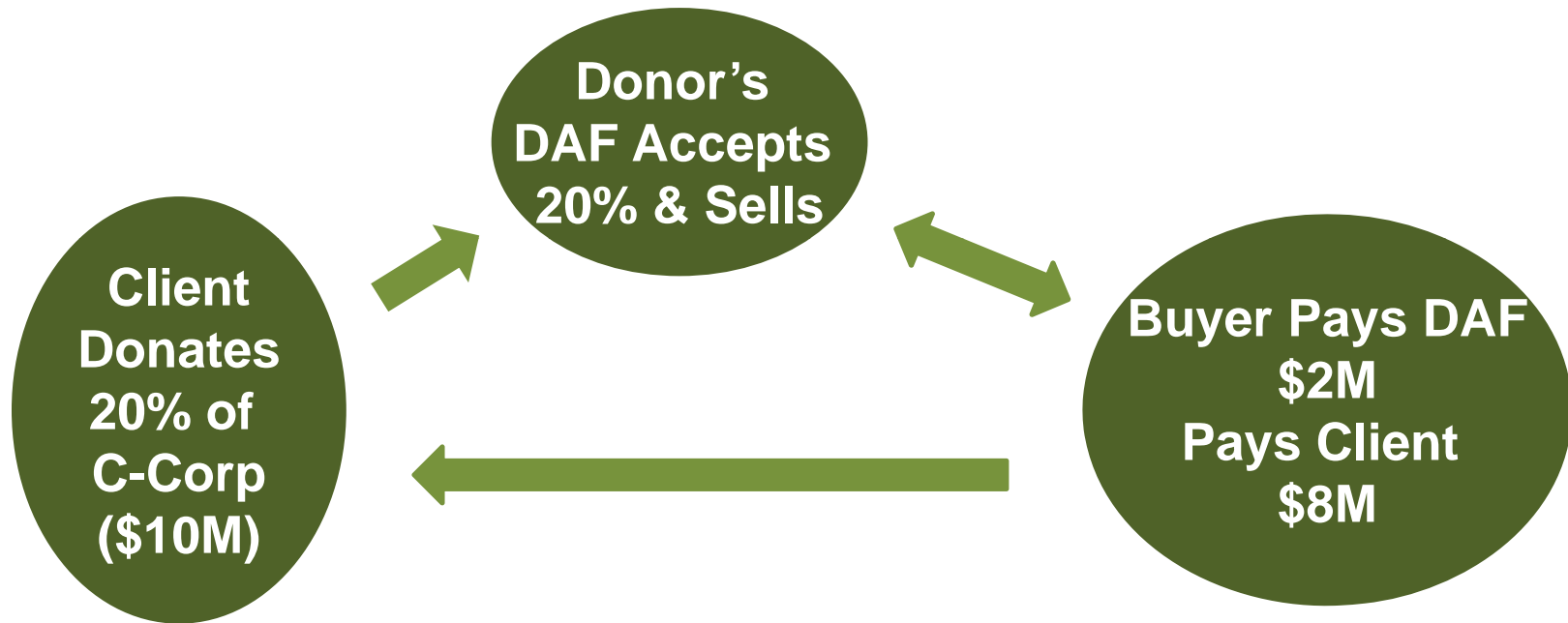
Donor gifts assets to AEF (Appraisal Needed)

AEF can hold assets until sold
(can be family, third party or ESOP)

FMV deduction and no capital gains tax
(cost basis if gifted to private foundation)

Closely Held (C-Corp) Strategy

(or Real Estate)

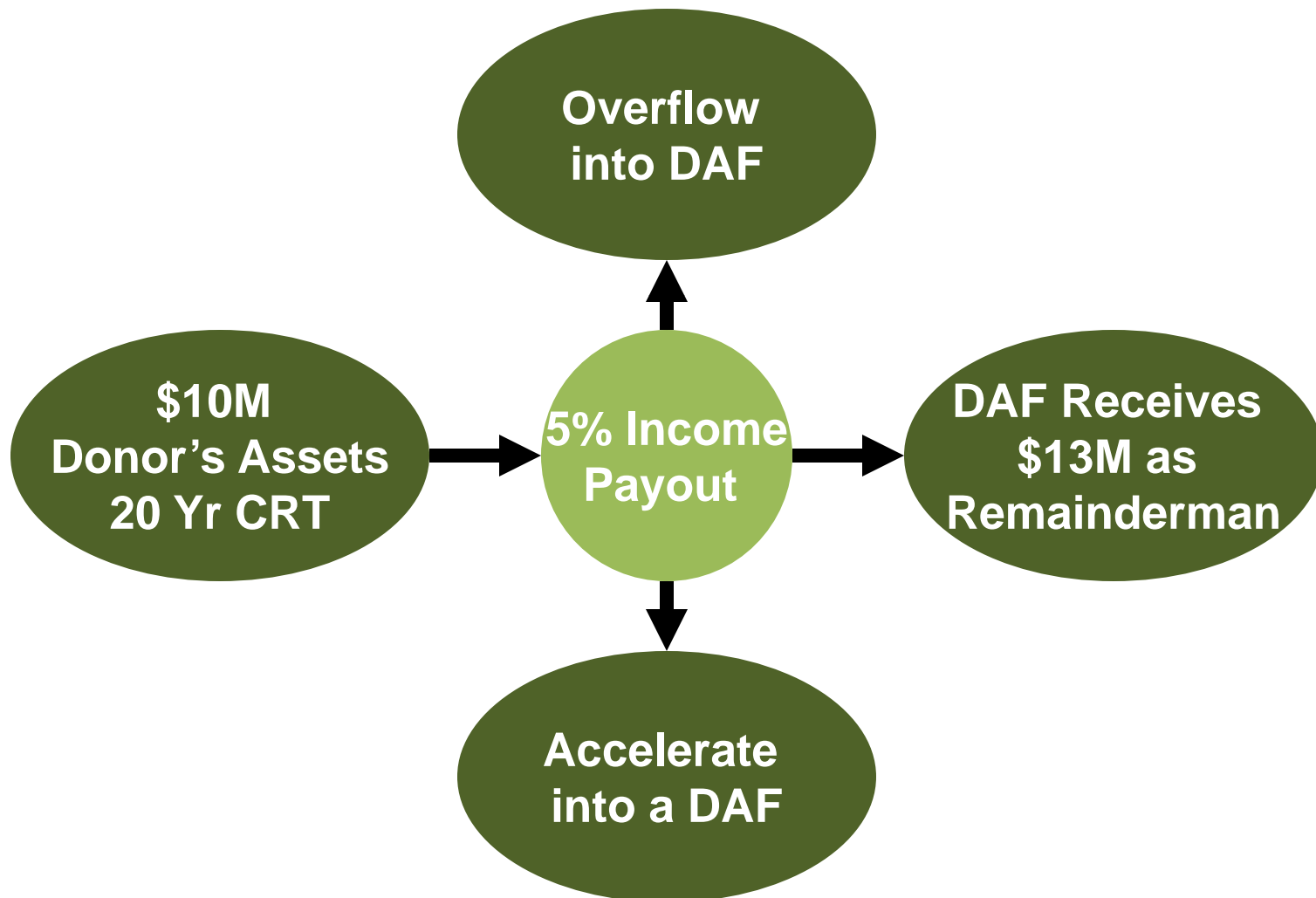


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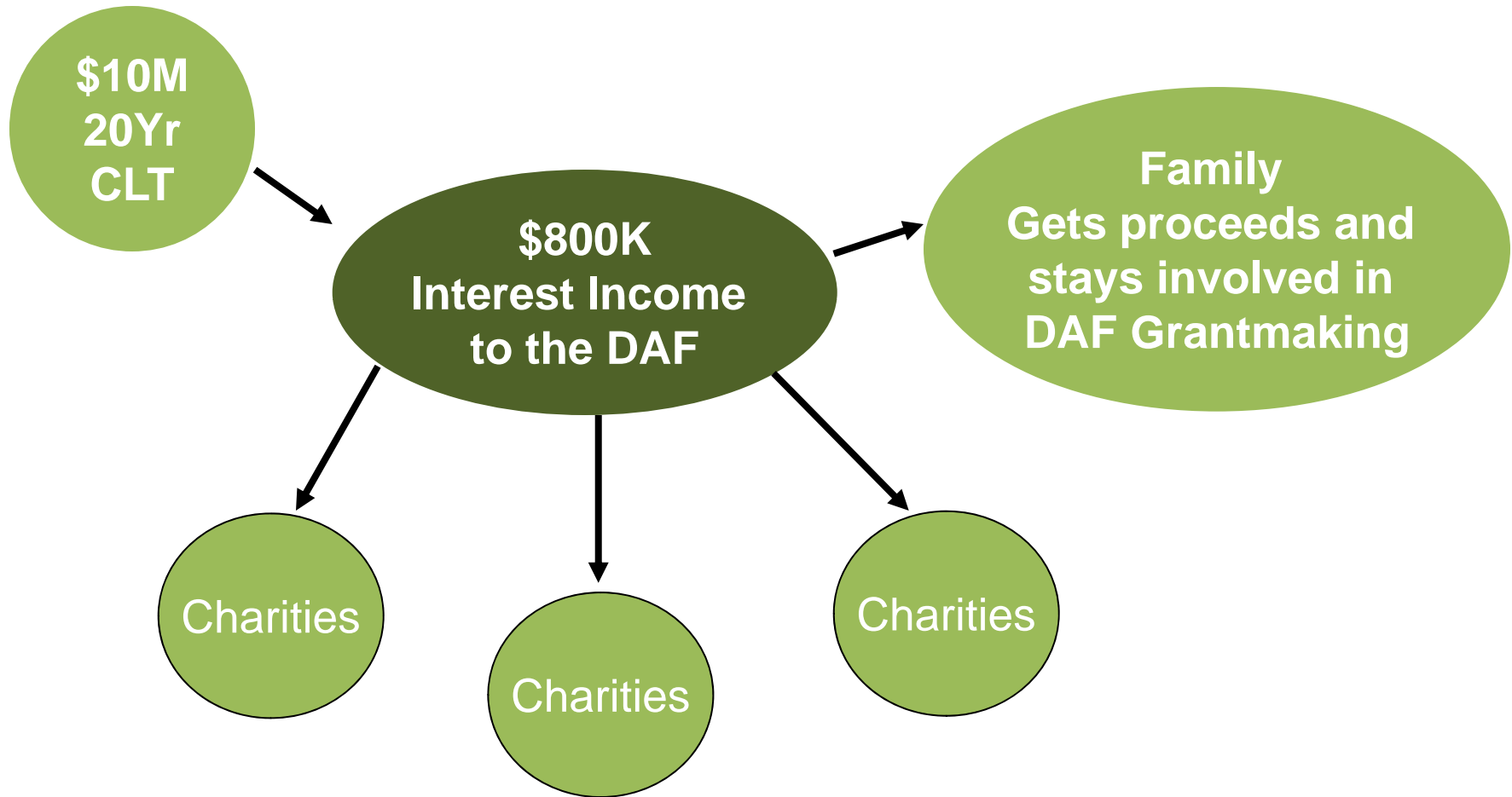
CRT Strategy

Unitrust assuming 5% payment and 8% return



CLT Strategy

Annuity assuming 8% payment



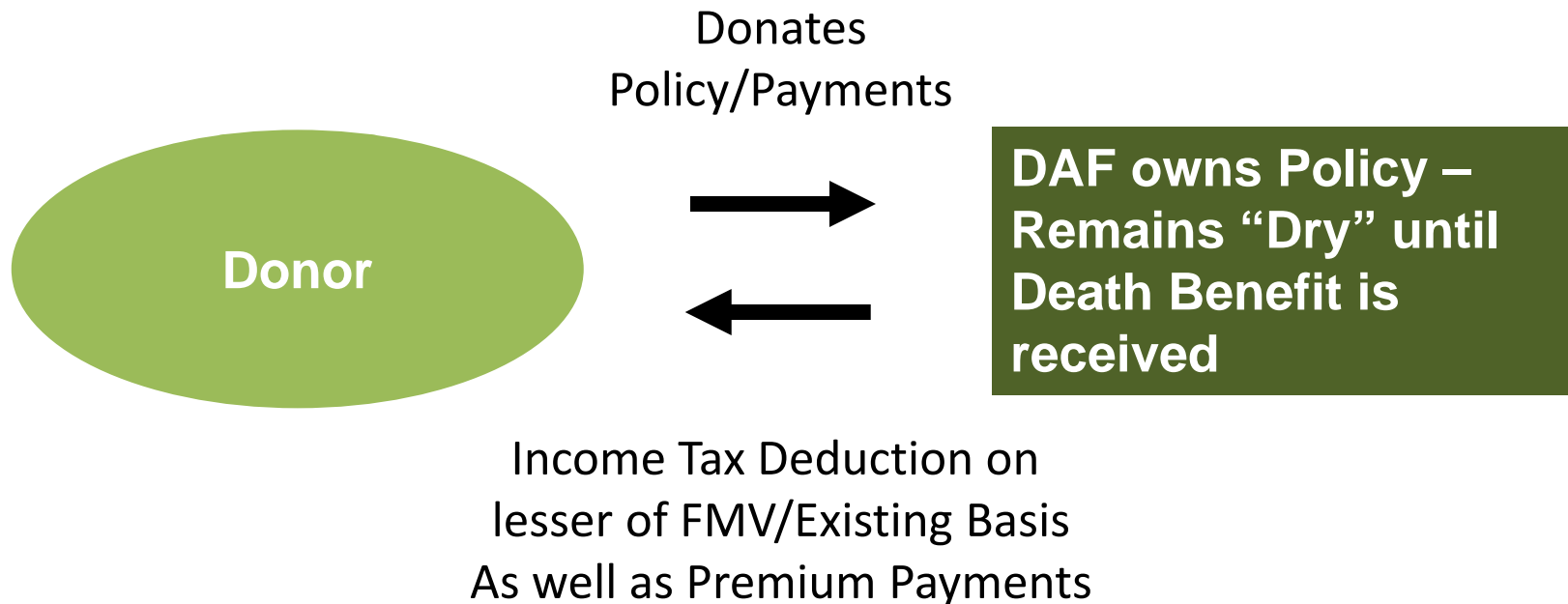
CRUT/CLAT Combo Strategy

Example from Planned Giving Design Center (updated 5/2011)

If the donor lives to his life expectancy of 10 years,

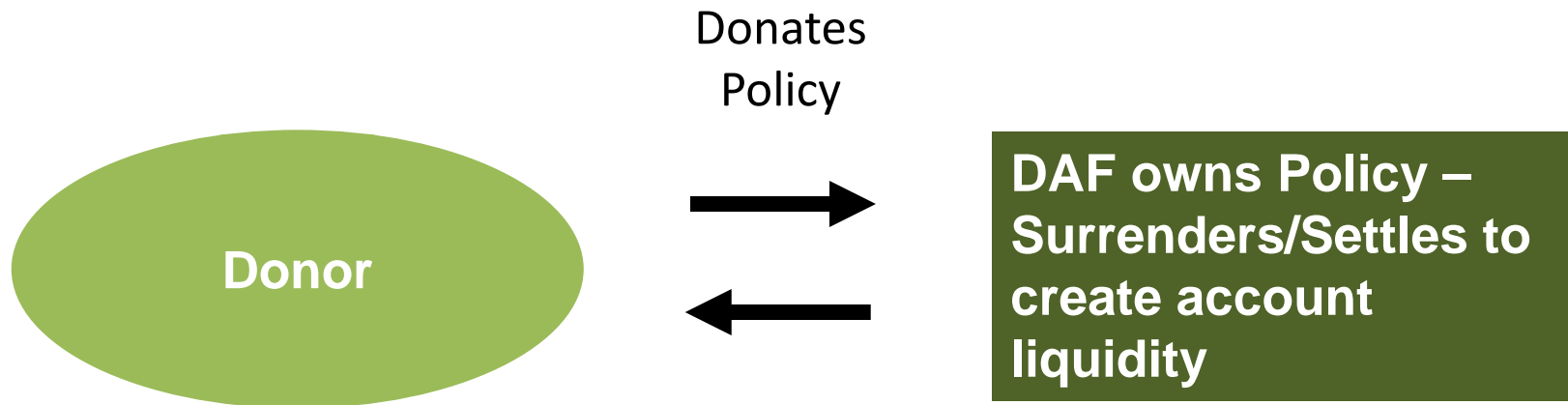
- CLAT that pays \$800,000 to DAF per year for 20 years
 - While the donor must report a gift of \$10 million to his heirs at the time the trust is created, he is entitled to an offsetting charitable deduction of \$9.6 million
 - If family grants 5% annually, this amount would be equivalent to immediately increasing the family philanthropy by some \$16 million.
- DAF will receive over \$13 million from the remainder of the CRUT at his death.
 - Donor entitled to an immediate income tax deduction of more than \$6.5 million.
 - Whenever the CRUT terminates, even if it's not for 20 years and it terminates at the same time as the CLAT, the CRUT balance would be more than \$18 million.

Strategy: Life Insurance Gift and Continuation



If existing policy is kept by Donor and they assign all annual dividends to DAF
A deduction is created as dividends are paid.

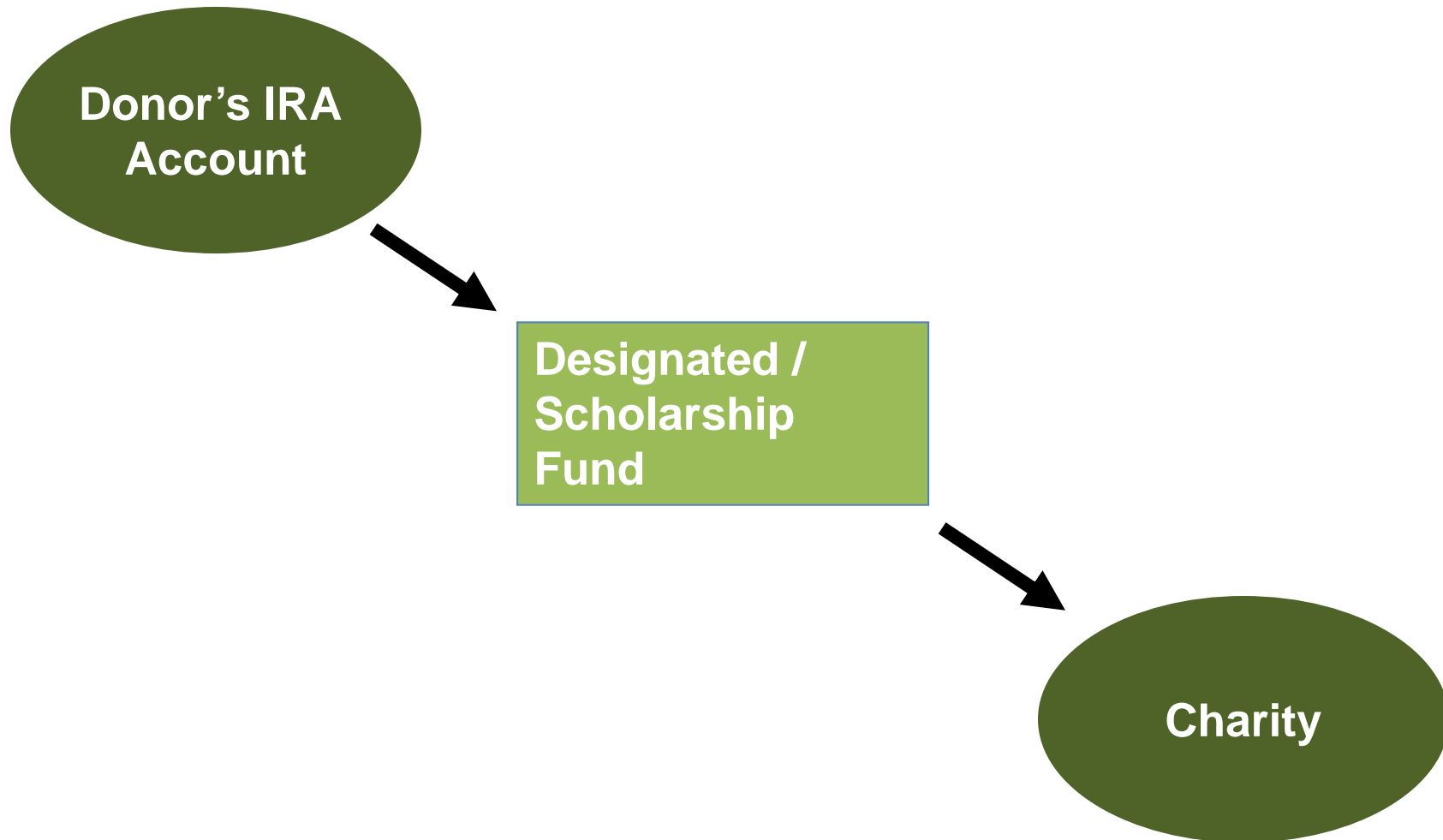
Strategy: Life Insurance Gift and Surrender/Settlement



Income Tax Deduction lesser of adjusted cost basis or fair market value

Charitable IRA Rollover

Cannot be made to DAF, FP or Supporting Org



Questions to Ask - Investments.

1. What are the range of investment options?
2. Can the trusted Financial Advisor maintain involvement?
3. What asset types can be contributed (closely held stock/real estate)?
4. How flexibility are the liquidation strategies?
5. Is there independence? (Product-driven agendas, program driven agendas or potential conflicts of interest)

Questions to Ask – Family Involvement

1. How does the family view “control”?
2. How many communities do they plan on supporting? For how many generations?
3. Is the family seeking to help individuals and families directly?
4. Are they willing to be subject to programmatic lobbying or scrutiny?
5. How important is anonymity?

Who is AEF?

- 501(c)3 Public Charity
- National / Independent / Open Investment Architecture
- Over 18 years in Donor Advised Funds.
- Track Record – Over \$200 million in assets.
- *Charity Navigator* consistently awards AEF highest rating for the past nine years (**Ranked #2 among the top 1% of charities to receive this honor**).