Charity Begins at Home?
Charitable Planning: How Giving Money Away Can Be Smart Financially

Whether you are not charitably inclined, or whether you have the heart of giver, a charitable planning strategy may be beneficial for you because it can:

- Increase your discretionary or "spendable" income
- Reduce — or even eliminate –income taxes, capital gains taxes, and estate taxes
- Provide a tax-free inheritance for your heirs
- Leave a lasting family and social legacy

You may or may not have considered charitable gift planning as part of how you distribute your wealth. Whether you have or not, charitable giving can give your wealth and estate a serious boost. Most people know you may receive a tax deduction when you give a charitable gift. There are many more strategies with different options and benefits.

Here are a number of options to gift money to charity:

- Charitable Remainder Trust (CRT),
- Charitable Gift Annuity (CGA),
- Charitable Remainder Annuity Trust (CRAT)
- Charitable Remainder Unitrusts (CRUT),
- Charitable Lead Trust (CLT),
- Charitable Lead Annuity Trust (CLAT)
- Family Foundations,
- Donor Advised Funds (DAF)
- Charitable Gift Annuities;
- and many more…

Instead of going through the Byzantine rules and pros and cons of all the above, here we will just concentrate on this one charitable vehicle: the Charitable Gift Annuity (CGA).

It is, by far, the simplest, least expensive and most beneficial way to fund charitable goals. In fact, it's so beneficial, even the most miserly, in the prime of their penny-pinching, would be happy with it.

A Quick Overview of the Charitable Gift Annuity (CGA):
It is a *contract* between a donor and a qualified 501(c)(3) public charity.

You make an irrevocable gift to the charity. In exchange, the charity *guarantees* you and your spouse a high lifetime income. You also get an immediate tax deduction.

The Charitable Gift Annuity "Hat Trick"
CGAs provide a triple bonus of benefits in the following ways:

1. Guaranteed Income For Life Protection. It's important to note that while charities that implement CGAs are required to keep a reserve in order to assure the guaranteed income — this is not enough. It's imperative that you work only with a reputable charity that knows how to implement a CGA.

2. Charitable Benefit. Not only is there a direct benefit to the charity, but also a CGA can be arranged so that the charitable funds are *directed* by your heirs to honor your original intentions. This too, has a *double benefit*: a) this helps to keep your heirs "in the community" through their charitable giving; and b) most likely to assure that *your values* are promoted.

3. Substantial Tax Benefits. There are *four tax benefits* setting up a CGA can achieve:
    i. When transitioning your ownership, in a lump sum, of a highly appreciated capital asset (marketable securities, real estate, business interests, etc.) to a charity in exchange for a CGA, you *avoid capital gains tax*;
    ii. You get to enjoy a *substantial immediate income tax deduction*;
    iii. Any *surplus deduction* that you could not use in one year, depending upon your personal tax situation maybe *carried over up to five additional years*.
    iv. When you move an asset to a CGA, you have removed the asset from your taxable estate, which can greatly *reduce estate taxes*

The following could very well be the **Smartest Strategy: "Wealth Replacement"**
Wealth Replacement is a fancy phrase for life insurance in an amount that makes up for the gifted value. You simply use some or all of the income stream that flows to you from the CGA to buy the life insurance.

How does Wealth Replacement work?
It works like this: you give away a $1,000,000 valued asset to a charity. Had you not given it away you would have to pay capital gains taxes. So, you have eliminated your capital gains tax (which would have cost about $250,000 in 2015, and which would have left you $750,000).

You also get a current income tax deduction (worth about $440,000 in 2015).

You use some annual stream of income (say only $25,000) from the charity to purchase a permanent $1,000,000 life insurance policy. You get to spend the remaining likely $50,000 annual income stream any way you choose. The new life insurance policy is "owned" inside an Irrevocable Life Insurance Trust (ILIT). When you use this system, the death benefit will pass *income tax-free* and *estate tax-free* to your heirs.

Let's say you are age 75 when you do this. Let's also say you live to full life expectancy -- to age 90. You get 15 years of the *extra* $50,000. That will total $750,000.

That is, you have just turned your net after capital gains taxes of $750,000 into: a) $750,000 total usable income, b) plus the $440,000 reduction in income taxes, c) plus the avoidance of the 25% capital gains tax of $250,000, d) plus you left $1,000,000 to your heirs. A whopping $2.4 Million gain instead of a net $750,00. That is a pretty good return of 8.7% -- all for being charitable.

Seems easy?
Caution, as usual. While charitable gift planning seems easy— it is not.

The reality is that simple is not often easy. Setting up a charitable gift planning program is similar to buying life insurance, or any other asset protection planning procedure. It must be done correctly. You must “respect the entities.” You should only incorporate this into your comprehensive and collaborative overall asset protection planning.

We can help; why not give us a call today at 866-977-2252 to find out more about how a CGA can benefit you?

Sign up for a free consultation and write in your questions, and we’ll get back to you with answers soon.