

# HELPING YOUR CLIENTS ACHIEVE THEIR PHILANTHROPIC GOALS

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Helping clients achieve their charitable planning goals is a labor of love. Talking with them breaks down into Who, When, How, What, and Why.

- ▶ **WHO:** Which clients do you talk with about this?
- ▶ **WHEN** is the right time for this conversation?
- ▶ **HOW** do you present the information?
- ▶ **WHAT** techniques do you discuss?
- ▶ **WHY** should clients consider including charitable planning in their estate plan? **WHY** should advisors bring it up?

# WHO?

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- ▶ Which clients do you talk with about charitable planning?
  - ▶ Everyone, not just the mega wealthy. The techniques may differ, but everyone can include charitable planning in their estate plan.
  - ▶ Talk to clients who already give to charity each year or regularly tithe. They may want the charities they care about remembered at their death.
  - ▶ Talk with your clients who have already provided for their families. Those who have already done gift planning to set aside for their family may be more receptive to providing for the community.

- ▶ Talk with clients with high-wage-earning children. Children who are financially independent are less in need of an inheritance.
- ▶ There's a growing population of clients with no children. Encourage them to find what's meaningful to them.

# WHEN?

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- ▶ When is the right time to talk with your client about this?
  - ▶ Not too early in the relationship with your client. It takes time to gauge their interests, needs, goals, etc. Once you know the family dynamics, their life experiences, what matters to them, then you bring it up. You can plant the seeds early but wait for the conversation.
  - ▶ Clients generally are more receptive to a conversation about philanthropy after they've taken steps to provide adequately for their family.

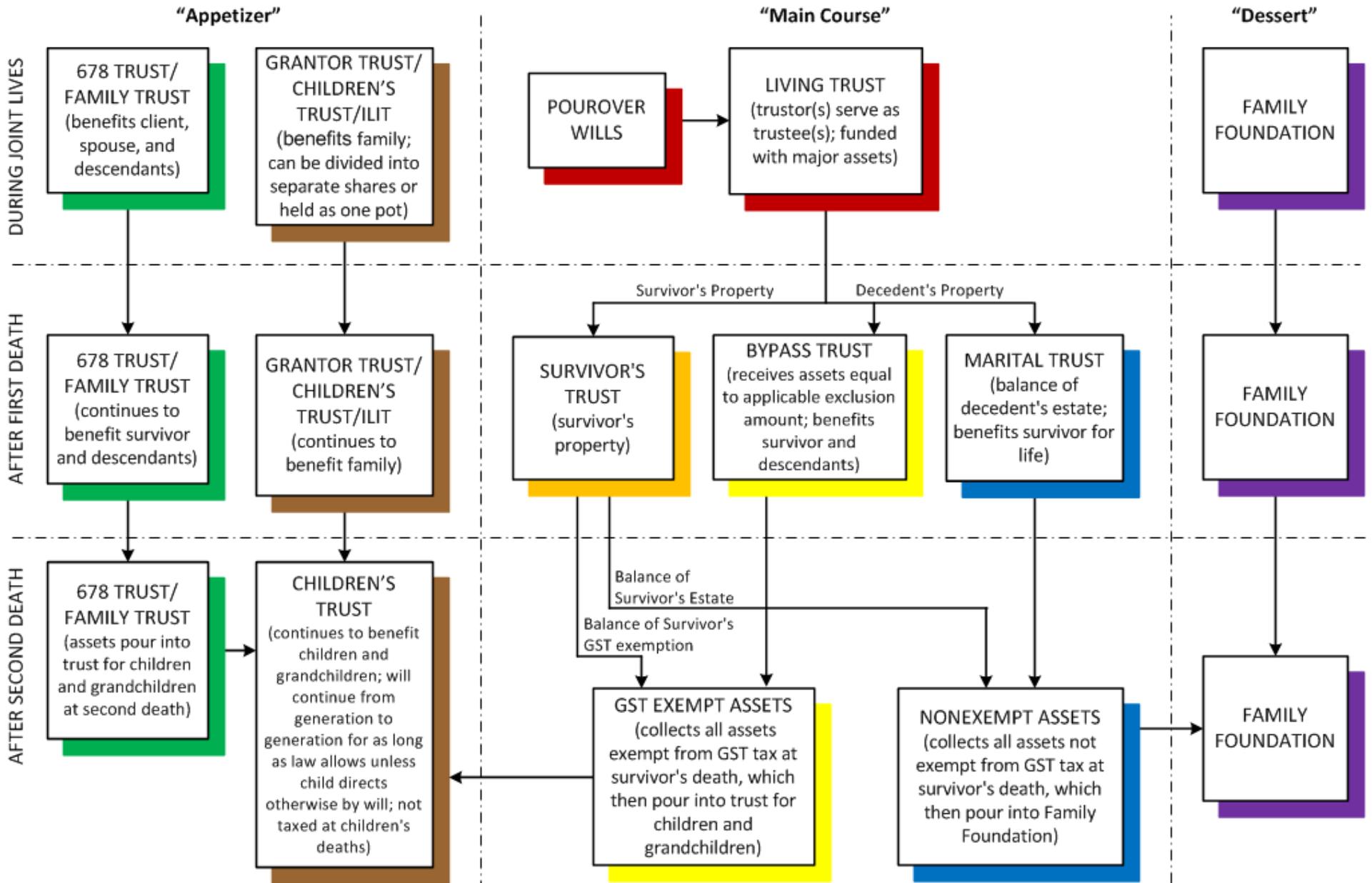
# HOW?

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- ▶ How do you discuss charitable planning with your client?
  - ▶ Some of my clients think of philanthropy as if it is another child. If you have 2 children, plan as if you have 3 and give 1/3 to each child and 1/3 to charity.
  - ▶ Do financial projections and show what their wealth will likely be at death. Show how much goes to the IRS without charitable planning and how much goes to the IRS with charitable planning.
  - ▶ Invite your client to join you at a luncheon or other charity event. After attending with them, you'll be in a better position to gauge their interests and advise them.
  - ▶ Similarly, charities should encourage their donor prospects to bring their advisor with them to charity events.

- ▶ Include the client's other advisors in the discussion about philanthropy. It's important that the whole team of advisors is on board.
- ▶ Present the information in an understandable format. We often use illustrative charts. Included is our Optimal Estate Plan "menu."
  - First (in the center) is the main course – take care of yourself and your spouse.
  - We also encourage clients to order an appetizer from the left side – take care of future generations.
  - Once that planning is done, the client can now talk about dessert – take care of the community.

# THE BLUM FIRM'S OPTIMAL ESTATE PLAN



# WHAT?

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- ▶ What techniques do you discuss with your client?
  - ▶ Again, you need to know your client. The spectrum of techniques runs from simple to complex.
  - ▶ If the client has an IRA or other retirement assets, discuss the tax benefits of leaving the IRA to charity at their death.

## LEAVE AN IRA TO CHARITY AT DEATH

IRAs are subject to both estate tax and income tax, so beneficiaries can end up with as little as 20 cents on the dollar. When a client names a charity as the beneficiary of an IRA, both estate tax and income tax are avoided, and the charity will receive 100 cents on the dollar.

- ▶ Maybe your client gives a certain amount to charity each year. Talk to them about contributing an income-producing asset to a Charitable Lead Trust (“CLT”). An annual payment goes to the charity, and in the end, the family may get the asset back. A CLT not only saves estate tax, but it also saves income tax. Because of historically low interest rates, now is an ideal time to create a CLT, as the CLT math works best when interest rates are low.

A CLT’s charitable distributions each year are not subject to limitations that apply to individuals (the 30% or 50% AGI limits or the 3% Pease cutback on itemized deductions).

### **CHARITABLE LEAD TRUST**

A CLT is a trust that makes an annual payout to a charity for a fixed term of years. At the end of the term, the trust assets pass to the client’s family free of estate or gift tax.

Example: Assume Husband and Wife have income that is high enough so they can only deduct 20% of their itemized deductions, mineral royalty income of \$100,000 per year, and they give \$100,000 per year to their favorite charities.

Without a CLT		With a Non-grantor CLT	
Royalty Income	\$100,000	Royalty Income	\$100,000
Less: Charitable Deduction		Less: Charitable Deduction	(100,000)
(\$100,000 minus 80% cutback)	(20,000)	Taxable Income	0
Taxable Income	80,000		x 39.6%
	x 39.6%	Income Tax	0
Income Tax	31,680	NII Tax	0
NII Tax (\$100,000 x 3.8%)	3,800	Total Tax	\$0
Total Tax	\$35,480		

Tax Savings of \$35,480 per year.

- ▶ If your client is planning to make a large charitable gift after a big liquidity event, such as the sale of a company, changing the order of events could save a substantial amount of taxes.

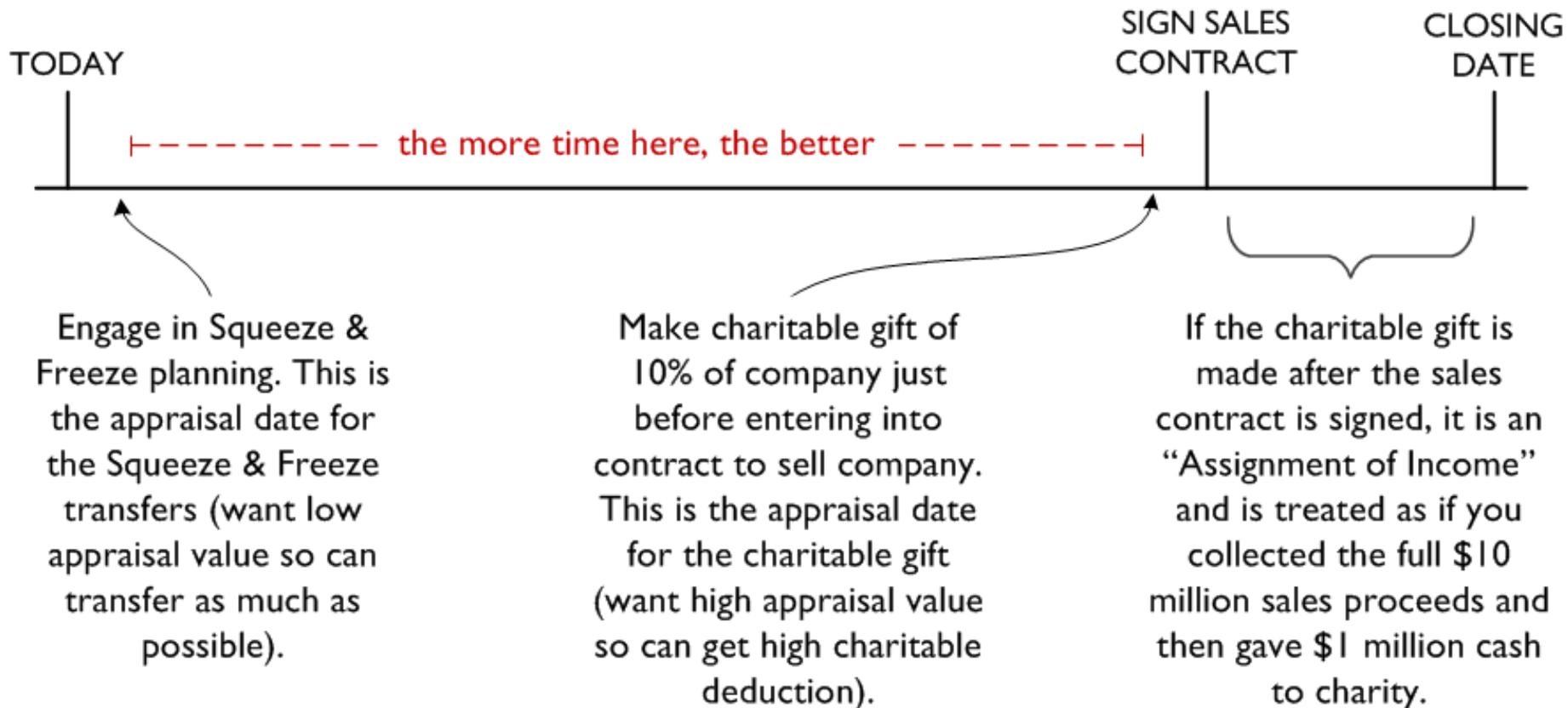
Example: Jane is selling her business for \$10 million and plans to donate 10% to charity after the sale. Instead of waiting until after the sale to make a cash donation, she donated 10% of the company stock just before signing the sales contract.

By making the donation before the sale, she only owed capital gains tax on \$9 million in sales proceeds rather than on the full \$10 million, which saved her \$238,000.

Whether she made the charitable gift before or after the sale, she still got a large charitable income tax deduction. But, by donating the stock early, she saved income tax on \$1 million of the sales proceeds.

# SALE OF BUSINESS

## TIMELINE FOR 10% CHARITABLE GIFT



- ▶ A summary of charitable planning techniques is included as an addendum.

# WHY?

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- ▶ Why should your clients consider including philanthropy in their estate plans?
  - ▶ Philanthropy brings meaning to life.
  - ▶ Philanthropy produces thoughtful children.
  - ▶ Philanthropy is another form of inheritance for the client's children. I believe there are two forms of inheritance. One is the financial inheritance. The other is providing children with the opportunity to benefit causes important to the family.

- ▶ Why should you bring up philanthropy with your clients?
  - ▶ It gives professional fulfillment to the advisor who helps a client do good and helps them feel good about themselves.
  - ▶ The client will appreciate you bringing this to them. They'll appreciate that you care about them feeling fulfilled. They'll appreciate that you're helping them create a **LASTING LEGACY** and provide for causes that are meaningful to them are taken care of.

# ADDENDUM

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## Summary of Charitable Planning Techniques

- ▶ **CHARITABLE GIVING DURING LIFE.** Charitable contributions during your lifetime reduce your taxable estate and allow you to receive an income tax deduction (subject to certain limitations). Just as important, you're able to see the recipient benefit from your generosity.
- ▶ **LEAVE A BEQUEST IN YOUR WILL.** You can benefit your favorite charitable entity by simply leaving cash or property to it through your will. Your estate will be entitled to a charitable deduction. If you die with a taxable estate, this would effectively reduce any federal estate taxes at your death by 40% of the amount given. Assets remain under your control during your life.
- ▶ **LEAVE AN IRA TO CHARITY AT DEATH.** IRAs are subject to both estate tax and income tax, so beneficiaries end up just a portion of the IRA assets (perhaps as little as 20 cents on the dollar). However, when you name a charity as the beneficiary of an IRA, you avoid both estate tax and income tax, and the charity will receive the full 100 cents of each dollar.

- ▶ **GIFT FROM IRA DURING LIFETIME.** A person over age 70 ½ may make charitable gifts directly from an IRA of up to \$100,000 without having to report the distributions as taxable income, and the contribution will count toward minimum required distributions.
- ▶ **PRIVATE FOUNDATION.** A private foundation is a tax-exempt entity, so it can sell property without income tax. In addition, you can donate cash or other property to the foundation and receive a charitable deduction (subject to certain limitations). Private foundations are subject to restrictions, but can be a valuable tool for family interaction and participation in community philanthropy because they can be managed by family members.
- ▶ **DONOR-ADVISED FUND.** Often used as a simpler substitute for a private foundation, this is a fund created for the purpose of distributing funds to qualified charitable organizations. You retain the right to recommend how the funds should be distributed. You receive a charitable deduction for the year in which the account is established, governed by the rules for making contributions to a public charity. Because the account belongs to the sponsoring entity (such as a community foundation) upon its creation, there is no income tax on the account's earnings each year.

- ▶ **LIFE INSURANCE WITH A CHARITABLE BENEFICIARY.** You can purchase a life insurance policy, naming your charity of choice as the beneficiary and the owner. You can then take an income tax deduction for the fair market value of the life insurance policy and for the premium payments made each year. A second option is for the individual to just name the charity as the beneficiary of a policy. This allows you to make a significant charitable contribution upon your death and qualifies for an estate tax charitable deduction. A more sophisticated technique involves combining a policy with a charitable trust, such as a charitable remainder trust.
- ▶ **CHARITABLE GIFT ANNUITY.** A charitable gift annuity is created when an individual transfers cash or other property to a charity in exchange for the charity's promise to pay an annuity to the individual for the individual's lifetime. Your charitable deduction is equal to the difference between the amount of cash or other property transferred to the charity and the actuarial value of the annuity.

- ▶ **CHARITABLE LEAD TRUST.** A charitable lead trust (“CLT”) is a trust that makes an annual payout, either a fixed amount (a CLAT) or a variable amount (a CLUT), to a charity for a fixed term such as 10, 15, or 20 years. At the end of the term, the trust assets pass to the donor’s family (typically to the donor’s children) free of estate or gift tax. There are also income tax advantages associated with a CLT. This technique works especially well in a low-interest environment.
- ▶ **CHARITABLE REMAINDER TRUST.** When you create and fund a charitable remainder trust (“CRT”), income from the trust is distributed back to the donor annually (either a fixed amount (a CRAT) or a variable amount (a CRUT)). At the death of the donor, the remaining principal passes to the named charity. Alternatively, the CRT can be structured to continue after the donor’s death for the benefit of the donor’s family members (for either their lives or a fixed period of time), with the remaining principal passing to the named charity at the death of the named family members. A CRT can sell property without income tax, deferring tax in the situation where the individual seeks to diversify out of a highly appreciated asset.