



# "Giving" Advice



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## ABOUT YOUR FOUNDATION

Since 1973, the **Toledo Community Foundation** has provided individuals, families and businesses interested in the well-being of our community with an *efficient, effective, low-cost, professionally managed* mechanism to achieve their charitable goals.

For philanthropists wishing to maximize the impact and life of their charitable gifts, the Foundation provides *resources for thoughtful giving*. Using its expertise and personalized services, **Toledo Community Foundation** helps donors

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## Build a Tax-Efficient Estate Plan

After building a nest egg over many years, people find themselves juggling a number of concerns, from taking care of themselves and loved ones to the effect of taxes on their wealth. A well-thought-out plan can minimize taxes while ensuring a client's financial security. Estate preservation strategies can even lend tangible benefits in establishing a legacy for a cherished cause and provide moral guidance for heirs. Community foundations can offer invaluable insight toward accomplishing these goals.

A suitable plan requires a focus on what a client wants to achieve long term—and that means more than simply avoiding taxes. "Many people say their goal is to reduce taxes, but that generally isn't their primary goal. They want to take care of their loved ones—and in doing so, pay as little tax as possible," says Karen Ciegler Hansen, an estate planning attorney with Felhaber, Larson, Fenlon & Vogt in St. Paul, Minn.

## Planning Tools for Different Situations

A number of strategies available to clients offer their own benefits, depending on the nature of the client's assets.

- **Charitable remainder trusts.** Clients are often most tax-averse when selling a highly appreciated asset in their portfolio. Transferring the asset to a charitable remainder trust allows the asset to be liquidated without incurring an immediate tax liability. A CRT provides a tax deduction for the donor based on the present value of the charity's expected remainder interest while generating an income stream for designated beneficiaries. Upon death, the asset in the trust goes to the designated charity. Generally, a CRT is appropriate for those able to donate assets of \$100,000 or more.
- **Charitable lead trusts.** Sometimes referred to as a reverse CRT, a CLT directs the income from a trust to the charity, with the remaining assets usually being passed on to beneficiaries upon the donor's death. CLTs are most useful when they hold assets that are expected to increase substantially in value during the term

transform their philanthropic impulse to measurable community impact. Beyond the gifting of assets, the Foundation helps donors identify issues of importance to them and *inspires engagement* with community organizations addressing these issues, thereby maximizing the impact of charitable gifts and creating a greater sense of fulfillment.

of the trust. The great advantage of a CLT is the ability in many cases to pass on this increased value to heirs without utilizing any of the estate tax exemption. Given the intricacies and IRS regulations involved, CLTs are seen as appropriate for those with assets of at least \$5 million.

- **Gift annuities.** Gift annuities are an excellent way to establish a charitable program, avoid paying taxes immediately on an appreciated asset, and also generate income. (If the donor is also the annuitant, he or she must pay capital gains taxes associated with the annuity annually.) The annuity pays a fixed amount annually for the life of the donor or beneficiary. "Even if the original gift is gone, the charity still makes payments to the beneficiary," notes Mary Ellis Peterson, gift planning director at the Minneapolis Foundation, a community foundation in Minnesota. "People, especially academics, love it because they know they can't outlive it."
- **Life insurance.** Utilizing life insurance is a popular option for those with a strong interest in creating a charitable legacy but who may not be asset- or cash-rich, according to Peterson. Donors give ownership of the policy to the charity, making the charity the recipient of the death benefit as well as any dividends that may be generated by the policy in the interim. By continuing to pay the premiums, the donor gets an income tax deduction in addition to the deduction from the adjusted value of the policy.

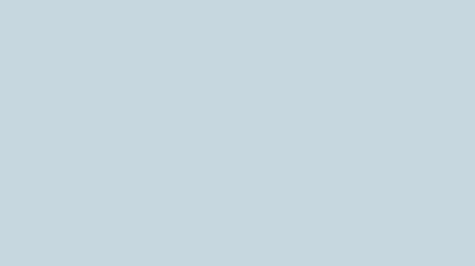
A second insurance strategy for those with a desire to support a charity but also provide for heirs is wealth replacement insurance. In these instances, assets are donated to a gift annuity or CRT, with the income being used by the donor to pay the dividends on a life insurance policy, typically of a value equal to the donation. Upon death, heirs receive the life insurance proceeds, which are tax-free in most instances, and the charity receives the remainder interest.

### **Making a Plan More Than a Tax Strategy**

Beyond tax-efficient strategies, there are many additional benefits to working with a community foundation, says Peterson. For example, setting up a donor-advised fund in conjunction with a trust or annuity strategy lets the donor, and his or her family, get personally involved in charitable giving. "It's a great opportunity for families to pass on not just money, but values," says Peterson. As the name implies, a donor-advised fund allows the donor and family to make grant suggestions to support the causes they care about through a community foundation. Family members can select charities they want to support, such as an alma mater, or they can tell the foundation their general interest, such as education, and utilize the foundation's expertise to suggest worthy recipients.

"I often tell clients to just start out with a small amount in a donor-advised fund," adds Hansen. In her experience, "every client loves them."

Remember, it's important that attorneys, charities, and financial advisors



all coordinate their expertise in order to create a strategy tailored to the client's interests. According to Hansen, clients who use estate preservation strategies can accomplish their goals—"Whether it is to take care of their family, themselves, or a charity," she says.

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