



# "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 transform their philanthropic impulse to measurable

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## Make Giving Part of a Financial Plan

Though it's seldom done, weaving a client's charitable giving into his or her investment strategy can yield superior tax benefits—while also having the potential to boost the client's philanthropic efficacy. "Clients are often already giving to causes they love, so talking to them about philanthropy has to be part of the overall strategic discussion," says Thomas W. Smith, CFP, a private planned-giving consultant and senior philanthropic advisor at the Vermont Community Foundation.

## Expanded Role

A piece of legislation now up for review in Congress would enhance the fiduciary aspects of a financial advisor's legal responsibilities with respect to clients' investments, tax strategies, and planned giving. Becky Kohler, CFP, of the Central Blue Ridge community foundation in Staunton, Va., sees this as a great opportunity for advisors. "One great conversation starter in this regard is to review a client's 1040 Schedule A and ask whether they've explored ways to improve their level of appropriate tax deductions," she says.

## Many Ways to Help

In the current cash-strapped economic environment, would-be donors may want to explore creative options such as donating appreciated or nontraditional assets. One increasingly popular example of this is the charitable lead trust (CLT). A CLT can be used to minimize taxes on the transfer of assets to the next generation while generating a revenue for immediate charitable distribution. In a CLT, a client donates an asset to the trust, which pays the charity an annuity or a unitrust amount over a set term of years. The client pays gift tax at the time the trust is created based on the predicted value of the remainder interest that will pass to the client's heirs. At the end of the term, the remaining assets and any growth go to donor's heirs tax-free, making CLTs particularly useful for transferring assets that are expected to grow substantially in value during the term of the trust.

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.

While this sounds like a great plan to many current and potential philanthropists, many are at a loss to identify a specific charity or charities as beneficiaries when they form the CLT. One way around this stumbling block is to make the beneficiary a donor advised fund at a community foundation. Doing this allows the donor to recommend different charities to receive distributions from the donor advised fund, depending on a charity's current level of need or the donor's interest. Such flexibility convinced one of Smith's clients to pursue a CLT plan with a lengthy 23-year term.

Conversely, one key downside to most CLTs is the lack of an immediate tax deduction for the asset's value. For those investors who require this benefit, particularly those with highly appreciated assets, a charitable remainder trust (CRT) is an option. With a CRT, the investor donates the asset to the community foundation and receives an income stream and an up-front tax deduction based on the predicted value of the community foundation's remainder interest.

Using a community foundation, CRTs are also excellent options for nontraditional giving. Unlike many other nonprofits, community foundations are comfortable working with donors to accept unusual assets such as farms, rental properties, and even, in the case of the Boston Foundation, a highly appreciated Internet domain name. Central Blue Ridge's Kohler has seen clients use CRTs as an effective way to sidestep taxes on properties that are not only highly appreciated but have also been depreciated on income taxes (which would cause a portion of the gain on a sale of the property to be taxed as ordinary income, rather than as a capital gain, due to the IRS depreciation recapture). One of Kohler's donors put the family farm in a CRT, avoiding a huge tax bill while benefiting the community foundation.

### **Boost Efficiency**

Advisors can also help prevent well-intentioned people from making gifts that are suboptimal from a tax perspective. Making gifts from individual retirement accounts is one timely option. In October, Congress extended a temporary rule allowing tax-free charitable gifts from these retirement accounts. This means clients can donate up to \$100,000 to a good cause with no tax consequences. Donors who've reached 70½ years old and must now make mandatory withdrawals can opt for this strategy—or else face the unpalatable choice of being taxed on withdrawals or having their estates taxed in the future.

Helping clients create room for charitable giving in their financial planning can also improve the client/advisor relationship. "If you help people be generous, they will remember you in the future," Smith says. "There is a vested interest for planners to talk to clients about philanthropy."

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