GIFTS OF SECURITIES

U.S. tax laws offer a triple tax benefit for gifts of securities (stock, bonds and mutual funds) that have increased in value since purchase or acquisition. Tax benefits donors can receive are: charitable income tax deduction, avoidance of capital gains taxes, and reduction of potential estate taxes. The following example shows the tax benefits donors can receive from gifts of securities versus a gift of cash.

	Gift of Stock	**Gift of Cash**
Value of the gift	**$100,000**	**$100,000**
Income tax savings (25% tax bracket)	**$25,000**	**$25,000**
Capital gains tax savings (15% on $80,000 gain)	**$12,000**	**$0**
TOTAL TAX SAVINGS	**$37,000**	**$25,000**

Determining the Value of the Gift

The tax deduction for a gift of actively traded securities is determined by the average of the highest and lowest quoted sales price on the date of the gift. For a gift of mutual fund shares, your client's deduction is the public redemption value of the shares on the date of the gift. The date used to value your gift of securities depends upon the way the securities are delivered.

- If the security is hand-delivered, the gift is effective on the date of delivery.
- If the security is mailed, the gift is effective on the postmarked date, assuming the stock power(s) and stock certificate(s) are received in due course.
- If the securities are held in "street name" (in a brokerage account) the date they are transferred into the Grant County Community Foundation account is the date of the gift.
- For mutual fund shares, the gift is effective when the donor's shares are transferred into the Grant County Community Foundation's account with the mutual fund company. The mutual fund company provides the necessary paperwork.

The Deduction

Charitable deductions for gifts of securities may be up to 30% of your adjusted gross income in the year of the gift. If the total amount of the charitable gifts of appreciated property made in one year exceeds this 30% deduction limit you may carry over that part of your deduction for up to five additional years. For example, if your adjusted gross income for the year is $100,000, up to $30,000 of appreciated property gifts given to the Grant County Community Foundation or for the benefit of an affiliated fund is deductible this year. Any amount over $30,000 may be carried forward for up to five additional years.

RECEIVING AN INCOME WITH A GIFT OF SECURITIES

Gifts of Retirement Plan Assets

Many Kansans have taken advantage of generous tax incentives provided by tax law to save for their retirement years. Known as "qualified" retirement plans, these plans, Individual Retirement Accounts (IRAs), 401(k), Keogh and others, feature income tax benefits when contributions are made to the plan. Plus, the money in the plan accumulates tax-free until it is withdrawn for retirement.

Double Taxation

If your client chooses up-front to not pay taxes by saving for retirement in a qualified plan, your client's family will be required to pay the taxes later and quite likely in significant ways. When the qualified plan terminates, most likely at the end of your client's life or that of their spouse, the plan can potentially be subject to double taxation: Estate Tax and Income Tax. Your client's retirement plan could be taxed up to 68% if they don't plan properly.

Examples:

- A $100,000 retirement plan in a $1,000,000 estate (below threshold for estate taxes) creates $38,250 in income taxes - leaving $61,750 for the family – a 38% shrinkage.
- A $1,000,000 retirement plan in a $7,000,000 estate (above the threshold for estate taxes, may change in the future) creates $625,450 in income and estate taxes netting $374,550 for the family.

Given this potential "tax bite" how can you minimize or avoid this heavy taxation? Simply leave your hometown all or a portion of your IRA or other qualified plan. The following are some ways to use your qualified plan to benefit your hometown and favorite charities, while minimizing tax consequences.

Beneficiary Change

Simply change the beneficiary designation on your client's account to the Grant County Community Foundation for the benefit of their hometown or other favorite charities for all or a portion of the account balance. Favorable new IRS rules have made this option more attractive without increasing the required minimum annual payments at retirement.

Contingent Beneficiary

Naming the Grant County Community Foundation as a contingent or secondary beneficiary for the benefit of your client's hometown or other favorite charities gives their heirs the option to decline their right to receive the account assets should they decide not to pay the potentially heavy taxation on the account assets.

Income for Family

Your client's retirement account's value may be preserved and income provided to their family with the use of a Charitable Remainder Trust. The use of this trust could greatly reduce your client's federal estate taxes. Additionally, no income taxes would be payable on their retirement account assets.

Asset Replacement

In some situations, it may benefit your client's family to name the Grant County Community Foundation as the beneficiary of their retirement plan. A newly purchased life insurance policy would replace the value of your client's retirement plan that would have gone to their family, without the tax consequences.

Charitable Remainder Trust

A Charitable Remainder Trust is a legal instrument into which your client transfers irrevocably the ownership of assets such as securities or real estate. In return, your client receives an immediate charitable income tax deduction and the right to receive an income. The income payments may be made to your client and/or one or more other loved ones for life or for a limited number of years.

When the trust ends the property remaining in the trust (the charitable remainder) passes to the Grant County Community Foundation to be used according to your client's directions to benefit their community or other favorite charities.

Types of Trusts

Your client can elect to receive a fixed-dollar amount of income called an Annuity Trust. Or, choose to receive a specific percentage of the property in the trust, called a Unitrust. If the value of the property in this type of trust increases, the income will increase. If the value of the property in this trust decreases the income will decrease.

Requirements of Trust

A Charitable Remainder Trust requires a trust document outlining how the trust will operate. A legal advisor should draft this document to assure that it complies with current laws.

In addition, your client may serve as the manager, or "trustee," of their own trust. However, many Kansans choose to engage the services of a professional trustee to handle the details of managing a Charitable Remainder Trust.

What a Charitable Remainder Trust can do

- Give the satisfaction of making a gift today that will be invested in their community in the future.
- Bypass capital gains taxes on gifts of appreciated assets.
- Provide tax-free growth of assets, increasing the value of your trust.
- Increase your income from low yielding investments or property.
- Provide a guaranteed fixed income.
- Pay a variable income as a hedge against inflation.
- Create an immediate charitable income tax deduction.
- Relieve your client of the burdens of management of their assets.

- Allow additional contributions.
- Reduce estate taxes and settlement costs.

Note: The above information is of a general nature and is not intended as legal advice.