

# Price & Farrington's Estate and Tax Planning FastFaxts

December, 2004

Estate, Tax, Business and Wealth Planning for Advisors and Clients

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## Year-End Charitable Giving: A Brief Refresher

This month's theme is the holidays and charitable giving...

With year-end holidays upon us, we want to remind our clients and trusted colleagues that with smart planning you can enjoy substantial tax savings while contributing to your favorite causes. If you itemize deductions on Schedule A of your 1040, you can, of course, deduct charitable donations. (Tip: for other charitable giving ideas, see our September, 2004 *FastFaxts*, "Strategies for Charitable Giving" in our *FastFaxts* archive on our website at [www.pricefarrington.com](http://www.pricefarrington.com).)

**AGI limits.** Cash gifts that you make to public charities cannot exceed 50% of your adjusted gross income (AGI). Donations of *appreciated property*, such as stock, cannot exceed 30% of AGI for gifts to public charities. Here's an example: If you expect your AGI this year to be \$100,000, you can deduct charitable contributions of up to \$30,000 of appreciated property. If you want to donate the maximum, you can also donate up to \$20,000 in cash and get a full \$50,000 first-year write-off.

Any charitable donations you cannot deduct this year because of the AGI limitations can be carried for-



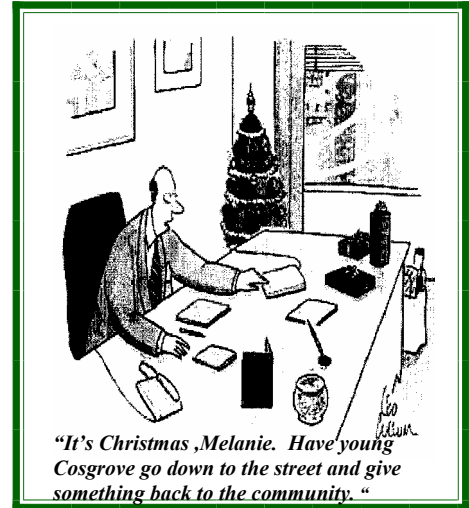
ward for up to five years. Each year, the same percentage-of-AGI limits apply.

**AMT.** Charitable deductions are allowed under Alternative Minimum Tax (AMT) rules. But high-bracket taxpayers who deduct large charitable contributions may reduce their regular income tax by so much that the AMT will come into play. The best strategy is to have your tax advisor crunch some numbers to see how much you can effectively donate to charity this year and still avoid the AMT.

**Beats check-writing.** Instead of writing a series of checks, a better approach is to donate appreciated securities to your favorite charities. For assets that are held more than one year before the donation, you can get a deduction for their *full current market value*. The unpaid capital gains obligation simply disappears. For example: You hold stock you bought many years ago for \$5,000. The stock is now trading at \$30,000. You have a \$25,000 unrealized long-term gain which, at 15%, triggers a tax of \$3,750 if you sold all the shares. After tax, therefore, the holding is really worth only \$26,250 to you. By donating the shares, you get the full \$30,000 deduction.

**The mechanics.** Here is a simple procedure for donating appreciated stocks, mutual fund shares, or other securities: (1) Call the charity and get its brokerage account number; (2) Call your own broker or mutual fund company and explain what you want to do, providing the charity's account number; (3) Follow up to confirm the transaction.

**Traps to avoid.** Don't do-



nate securities held in an IRA, SEP or other tax-deferred retirement plan. Under current law, the value of the shares donated to charity will be considered taxable income to you, at ordinary income rates. Instead, donate appreciated securities held in a taxable account, which won't trigger any income tax. Also, don't donate securities selling at a loss. Instead, sell those securities to take the tax loss yourself, and donate the cash to charity.

**Donor-advised funds.** The procedures we've discussed for donating appreciated securities will work fine if you're making one \$30,000 donation, or even two or three large donations. However, if you intend to make donations to, say, ten different charities of \$3,000 each, the paperwork involved can be daunting, so, instead, use a donor-advised fund. (see box on page 2) (Also, see our December, 2000 *FastFaxts* in our complete archive at [www.pricefarrington.com](http://www.pricefarrington.com).)

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Happy Holidays from  
all of us at Price &  
Farrington, PLLC!

Our best wishes to  
you and your families for a safe  
and joyous Holiday Season!

We hope your new year  
is filled with love,  
health &  
happiness!

Glenn, Chuck & Jennifer



**Stocking stuffers.** Besides cash and securities, other items can be donated before year-end to generate 2004 tax deductions, such as clothing, collectibles, and even life insurance policies you no longer need. Be cautious about donating a car to charity; because of increased taxpayer abuse, the IRS has implemented greater oversight and new rules. You are probably better off selling the car and giving the cash to charity.

**Give, but substantiate.** For small gifts of goods, you can assign your own valuations without receipts, but larger gifts require a paper trail:

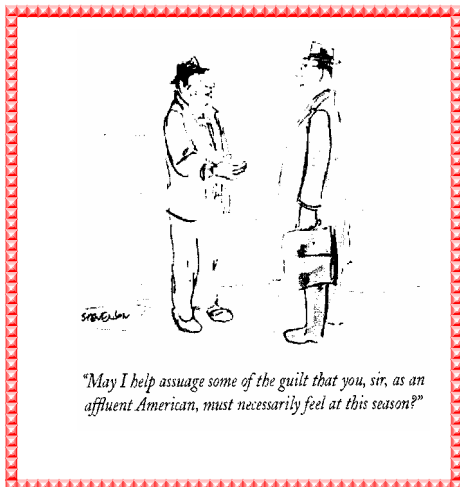
☒ For a contribution worth \$250 or more, you must get a written receipt from the charity.

☒ For a donation of more than \$500 worth of goods, you must include Form 8283, *Non Cash Charitable Contributions*, with your tax return, providing details about your gift.

☒ If you claim a deduction of more than \$5,000 for any one item, you must have a qualified appraiser provide a valuation that you attach to Form 8283.

Note: If you are donating art or other types of collectibles, in order to get a full deduction you will need to have a record showing that the items are being used for the charity's general purposes, e.g., donating a painting that the university uses in art appreciation courses.

*Charitable giving can be a meaningful part of your overall estate and tax planning. Contact us for advice, and have a happy holiday season.* ■



### DONOR ADVISED FUNDS Up-front Deductions: Gifts for Years

With a donor advised fund (DAF) you make an up-front contribution (cash, securities, or other assets) to the fund. At the time of the contribution, for instance before December 31, you can deduct the contribution as a donation to a public charity. Then, at your own pace, you can specify "grants" from the DAFs to various charities of your choice. In other words, you can deduct now and deal with the paperwork later.

As an example, you donate \$30,000 worth of appreciated securities to The Seattle Foundation's Donor Advised Fund on December 30, 2004. The fund can sell the shares without owing any tax so you will have the full \$30,000 in your fund account, assuming you don't run afoul of the AGI limits.

DAFs are a good choice for donors who want to make smaller grants and who don't want to exert a lot of money managing their gift's investment over a period of several years. DAFs usually limit donors' investment options to a choice of mutual funds or broad investment strategies.

**Making grants.** You might notify the fund in January that you would like to donate \$3,000 to your alma mater and \$3,000 to a disabled veterans' group. Grants will be made in your name so you'll get the appropriate recognition. Other grants can be made in the future and you can add to the account, if you want. Funds in the account that haven't been donated yet will be invested. Investment earnings will be untaxed and can add to the amount available for future contributions.

Note: DAFs generally impose a management fee for holding and investing assets before they are actually donated to charity. As long as the fees, typically 1%, are reasonable, the advantages you'll enjoy using a DAF will justify them. Many local community foundations sponsor DAFs. They are also offered by financial services firms such as Fidelity Investments, Vanguard Group and Charles Schwab.

*For more on Donor Advised Funds, go to our December, 2000 FastFacts at [www.pricefarrington.com](http://www.pricefarrington.com) or feel free to contact us. Happy giving!*

### JEST A MOMENT... Charity...

The pig complained to the cow saying, "I know you give milk, leather and beef, but I give pork, pigskin and even my bristles are used for brushes. Why are you loved so much more?"

"Maybe", the cow said sweetly, "it's because I give while I'm still alive."

Mrs. Rossdale was on her way to meet a friend when a bum came up to her with his hand out. "Lady, can you help me? I haven't eaten in three days."

"So force yourself," she snapped, and walked on.

### Christmas...

Thanksgiving and Christmas are emotional times. People travel thousands of miles to be with people they only see once a year. And then discover once a year is way too often.

A well-adjusted person is one who not only knows what they want for Christmas, but what they're going to exchange it for.

"Is your daddy home?"

"No, sir. He hasn't been home since mother saw Santa Claus kissing the maid."

What is your husband getting for Christmas?"  
"Bald and Fat."



Glen D. Price