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Smart Giving Takes Smart Planning

More than 900,000 public charities are registered with the IRS—almost 70% more than a decade ago. The government encourages donations to these organizations by offering philanthropists some lucrative tax breaks. For affluent families, setting up a smart philanthropic strategy is not only a great altruistic mission, but also a means of easing the potential tax burden of your estate plan.

One of the more compelling reasons why an individual leaves a sizable portion of his or her estate to charity—beyond the primary desire to do good—is to avoid hefty estate taxes. In 2008, a 45% tax is levied on estates of more than \$2 million. (Next year, the IRS will raise the estate tax exemption to \$3.5 million.) And this all adds up to serious revenues. The Tax Policy Center in Washington, D.C., a joint operation of the Brookings Institution and Urban Institute, estimates that 17,500 estates will pay some \$23 billion in federal estate taxes this year.

STOCKS: THE CASE FOR GIVING THEM AWAY

By taking a deduction for donations of cash, real estate, investments (including stocks and bonds)

and other property, an affluent family can significantly reduce its tax obligations. However, individual situations differ, and tax rules can be quite fluid for affluent families with more complicated estates. It is best to confer with a financial advisor on the best ways to obtain these property deductions.

In almost all instances, it makes sense to gift appreciated property—especially shares of stock—instead of cash. Gifting stock gets you the full tax deduction of the shares' current market value while avoiding the capital gains taxes you'd pay for selling the shares and donating the cash. The same rules apply to real estate and art donations. Of course, you need to confirm that your designated charitable organization will accept your asset gift.

BENEFITS OF CHARITABLE TRUSTS

Several types of trusts can help maximize your charitable intent, while leveraging gifts of property. A charitable lead trust, for example, pays an income stream to a charity of your choice for a predetermined time period—from a few years to your entire lifetime. Upon the term's expiration,

If you should become incapacitated, a fiduciary acting as a medical or financial power of attorney will make health care or medical decisions on your behalf.

An executor—who could easily have power of attorney—carries out the provisions of your will and manages the process of probate, if necessary.

A trustee manages your trust's assets, which includes making investments and managing distributions.

A guardian provides shelter, guidance and financial support to the underage children in your family.

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the remaining cash and investments revert to your heirs, a charity or a mixture of both. Such a trust can also be created to hold real estate you want to retain but from which you don't need to draw income. For example, when you put real estate into a trust and it generates income, that income becomes a charitable donation for the course of the trust's lifespan. When the trust terminates, the property reverts to your estate, subject to taxation upon your death.

A charitable remainder trust is the mirror image of a lead trust. You structure a lead trust to pay you an income while you are alive. Upon your death, the remaining invested principal goes to your designated charity. This type of trust may be appropriate if you have a non-income-producing property. Rather than sell the property and face capital gains taxes, you can give it to the irrevocable trust for 20 years, which allows the property to appreciate. You receive distributions from the trust—and the charity gets the remainder. When they're orchestrated properly, donations to either type of trust generate an immediate income tax deduction.

LEGACY-DRIVEN GIVING

To create a legacy that lasts for generations, consider setting up a family foundation or giving to donor-advised funds. According to the Foundation Center, a New York-based group that tracks philanthropic organizations and grant makers, roughly 35,700 family foundations existed in 2006. These entities awarded a total of \$16 billion to various causes.

However, foundations can be expensive to start and expensive to run. An alternative is gifting to donor-advised funds, which are run by large investment firms. You give money to the fund and take an immediate deduction on your income taxes. You get to choose when the assets are donated and to what charities. The original gift can exist in perpetuity by having the fund manager invest the principal and donate investment proceeds.

Philanthropic planning can yield tremendous personal satisfaction and, at the same time, generate substantial benefits. Talk to your estate attorney and financial planner about creating a meaningful and smart gift-giving strategy that can help you achieve your goals.

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