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Planned giving permits larger donations

Charitable events are in full throttle this spring. With rampant federal funding cuts, current economics place a heavy toll on charitable organizations. Furthermore, as part of the 2013 budget cuts, there is a proposal to limit itemized deductions to reduce the value of the charitable deduction to 28 percent for families with incomes over $250,000.

Those of us in a position to give feel a responsibility to contribute more so charitable organizations can maintain their commitments. I often hear board members voice their frustration — "I wish I could give more." Through planned giving, you can fund charitable organizations in real time to ensure that charities can maintain their commitments and continue to positively impact society.

Planned giving enables you to make larger gifts than you could traditionally make from your income. These gifts can be made during your lifetime or at your death as part of your overall estate plan. There are countless types of complex estate planning tools — charitable remainder trusts, charitable lead trusts, charitable gift annuities and supporting foundations. But planned giving can also come in a variety of simple forms. The quantitative income and estate tax benefits are tremendous and the qualitative personal benefits are, as we all know, priceless. Here are a few planned giving options to consider:

Specific bequest in will or revocable living trust

A specific bequest can be defined by a dollar amount, a percentage of your estate or the remainder of your estate. A bequest can also create an endowment fund, which provides a permanent legacy with a perpetual gift of the income. Consider a situation in which your immediate family is together when tragedy strikes — would you want distant relatives or a charitable organization to be the beneficiary of your estate? The value of a specific bequest upon death is excluded from your taxable gross estate.

Example: Dr. Belmont dies with an estate valued at $3.75 million. His wife predeceased him. Upon his death, Belmont's estate is not subject to taxation at the federal level (where the exemption is $5.12 million), but is subject to taxation at the state level (where the exemption in Illinois is $3.5 million). Belmont's estate would pay $64,815 in estate taxes. However, if Belmont amends his living trust to provide a charitable distribution of $250,000, his estate will pay no estate tax. Thus, Belmont's charitable donation of $250,000 only costs his estate $185,185.

Appreciated assets

If you have an asset such as stock that has appreciated in value and held at least one year, you can donate it and receive a charitable deduction for the full fair market value of the stock. This allows you to avoid capital gains tax on the appreciation of the stock.

Example: Eileen purchased shares of publicly traded stock for $5,000, which appreciated and is now trading at $10,000. If Eileen sells the stock, she will have to pay capital gains tax of $750. If Eileen donates the stock to charity, she gets a charitable tax deduction of $10,000 and avoids the tax. In essence Eileen has donated $10,000 to the charity, but in real dollars it cost her $9,250.

THE BUZZ

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Lindsey Paige Markus, a principal at Chuhak & Tecson P.C., draws on her early career in business, finance and clinically applied neuroscience to communicate with clients and develop creative solutions to fit their estate planning and asset protection needs. Lindsey was named an Illinois Super Lawyers Rising Star in 2010, 2011 and 2012. She is licensed in Illinois and Florida.

Retirement plan assets

You can update the beneficiary designation on your retirement plan assets to incorporate a charitable organization. You may gift the entire retirement plan or a percentage. Traditional retirement plans assets may be subject to a tax as high as 70 percent when you combine federal income tax, state income tax, federal estate tax and state estate tax. Instead of being subject to both income and estate taxes, traditional retirement plan assets can be donated to a charitable organization tax free.

Example: John updates the beneficiary designation on his traditional IRA to make a charitable organization a beneficiary of 25 percent of his IRA account. Upon death, the appreciated retirement plan assets that are designated to charity are excluded from John's taxable gross estate and are not subject to income taxation.

Life insurance proceeds

You can update the beneficiary designation on your life insurance policies to incorporate a charitable organization to receive a percentage of the proceeds. Also consider purchasing a new policy and naming a charity as the policy's irrevocable owner and beneficiary (or make an irrevocable transfer of an existing policy). When a charitable organization is the irrevocable owner and beneficiary, you receive an income tax deduction for the cash value of the policy as well as a deduction for any future premiums paid.

Example: Susie (age 35) purchased a $100,000 life insurance policy and named a charitable organization as the policy's irrevocable owner and beneficiary. Susie pays $10,500 in a one time premium payment (as a lump sum or over a few years). The payments are tax deductible and upon her death, the charity will receive a $100,000 endowment. Susie's $10,500 donation today is worth $100,000 upon death.

It can be so easy to incorporate a charitable organization as part of your estate plan — take a moment to think about and implement the legacy you wish to leave.