



UPI: "Finance Matters"

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Planning: Save taxes / support the Kingdom

March is passing, April approaching and with April comes "April 15th". Quoting FDR, "A day that will go down in infamy". Few Americans can think of 4/15 without being reminded that it is "income tax day". Thus, in this article, I'm going to discuss a concept that can reduce income tax, while simultaneously adding resource (now or later) for Kingdom work.

True Story: Several years ago, it was time to add a new puppy to our household. Being a lifelong admirer of English Bulldogs, (they're so ugly, they make me look handsome), I actually found two puppies. The male, I named "Capital Gains" (called him Cappy), and the female I named Dow Jones (DJ). In 2005, Cappy suffered a bout of brain cancer, and passed on to the Rainbow Bridge. DJ is still doing fine.



The point (irony) is that Cappy served as an accurate predictor of many investments. During the 90's, and except for a short period surrounding 9/11, most of us joyfully watched our investments grow, almost exponentially. Obviously, the train came to an end, and realizing gains for the past few years has been a challenge. So, not only did my puppy "Capital Gains" pass away, so too did many positive investments!!!

That said however, since March of 2008, we've seen a dramatic increase in equity investments, thus, many of us once again are finding that we have 'Capital Gain' assets. (investments that have grown in value well above our initial cost.)

Thus, today, I'm outlining several concepts that permit us to advance the Kingdom, while enhancing our own tax planning (and even our savings potential)

Given: As I discuss this, I'm doing so with an assumption that you (the reader), are already making gifts to charities. (Kingdom work).

Thus, each of the concepts involve giving the capital gain asset *instead* of giving out of cash flow.

Example: As an example, let's assume that I want to make a contribution of \$10,000 to a ministry. One option is to simply take the \$10,000 out of a cash account and make the gift.

The option I'm outlining today is as follows: We have an investment (assume it's Caterpillar stock). We purchased the stock (or our investment advisor did on our behalf) two years ago for \$36.00 per share. Today it's selling for \$109. Thus, if I bought 100 shares in 2008, my cost was \$3,600. Today's value is \$10,900. GREAT!!!

But, the rub is that even though I have a nice gain, if / when I want to convert the Cat. Stock to cash, or reinvest that value somewhere else, I will have a capital gain tax of \$1,095. (Gain of \$7,300 times the capital gains tax rate of 15%) Still a nice profit, but

So, let me return to the example. After visiting with my tax advisor, (always important), I decide to give 91 shares of my Cat. stock to the ministry. The ministry, simply receives the shares, and immediately sells them, thus realizing the \$10,000 that I wanted to give them.

I get an income tax deduction for the entire \$10,000. (since that is the value of the gift), and I did not have to recognize the taxable gain as income.

Then, if I'm still a believer in Caterpillar, I can use the \$10,000 of cash that I was going to give to the ministry to repurchase Cat. stock, but now have a new cost basis of \$109. per share. Thus, in the future when I sell the stock, the gain between \$36. (my initial investment) and \$109 (my revised investment) is never recognized as taxable income!!! *(by the way, financial planners are quick to point out that the current capital gains tax rate of 15% may be short lived. As congress looks for additional revenue, they see the possibility of increasing the capital gains tax rate as 'easy pickings'. Thus, the rate could easily be considerably greater in the future.)*

Now, let me outline several nuances that even puts more sugar on this little used financial dessert.

Capital Gain Asset as a direct gift. The example I outlined above, was simply a direct gift to a chosen ministry. I gave the stock instead of the cash, then used the cash I was going to use to replace the stock.

Capital Gain Asset to a “Donor Advised Account”. Another option: It is conceivable that for a variety of reasons, we can have significant swings in taxable income. Obviously the value of our deductions is enhanced in ‘high income’ years. It is conceivable that in those years, we want to make greater gifts for the greater charitable deduction, *(a deduction, by the way that is also under congressional attack)* but want to delay the contribution to the ministry, recognizing that they will have needs tomorrow also.

A viable option is to create a “Donor Advised Account” with a local community foundation, or a national brokerage firm. The gift is then made to that account, and we enjoy an income tax deduction as if we had made the gift directly to a ministry.

We have total control of the account, *(i.e. we can make distributions from the account to any not for profit organization at any time).*

Then, at any time, in any year, when we are ready to make a contribution to the ministry, we simply direct the trustee to make the gift from our account. *(one key caveat is that we can’t get the money back for our own use, unless we are a not for profit ministry, so the contribution must be seen as simply that, a contribution!)*

As stated above, the use of this device helps us manage the timing of our charitable deductions while benefiting the ministries in a seamless manner.

The gift in this case can be either the capital gain asset as discussed above, or cash.

Capital Gain Asset to a “Charitable Remainder Trust” (CRT). Another option, is the idea of ‘giving it away, but continuing to use the asset. Due to the length of this issue, I’ll discuss this option in far more detail in a future issue of “Finance Matters”. However, the concept is relatively simple. We take the same asset described above (The Caterpillar Stock), and contribute it to a CRT. We receive a tax deduction for the ‘gift’; and we receive an income from the CRT for a period of time or until we go home to be with our savior.

Then, at that point, the value of the CRT goes to the ministries of our choice. Many of us want to tithe on our estate assets as well as our incomes. This method permits us to transfer some of our estate assets, in keeping with that desire, while also enjoying a current tax deduction, as well as an increase in current income.

Talk to your tax advisor. Tax planning can be fun and profitable. The objective of this issue is to apprise you of some viable but often overlooked opportunities. Caveat: Do it yourself tax planning is comparable to the attorney who represents himself. It is said he has a ‘fool’ for a client. Thus, while understanding planning opportunities is key, we stress the necessity to

discuss the options with your tax advisor. He / she will have the ability to evaluate your personal situation, as well as align charitable planning with your overall tax planning.

As always, we at UPI are interested and willing to answer your questions. So, feel free to be in contact.

Chuck Yeager:

***chuckyeager7@earthlink.net* Cell: 574-527-2300**

