# Leveraging generosity

## A road map to maximizing charitable giving and stewardship

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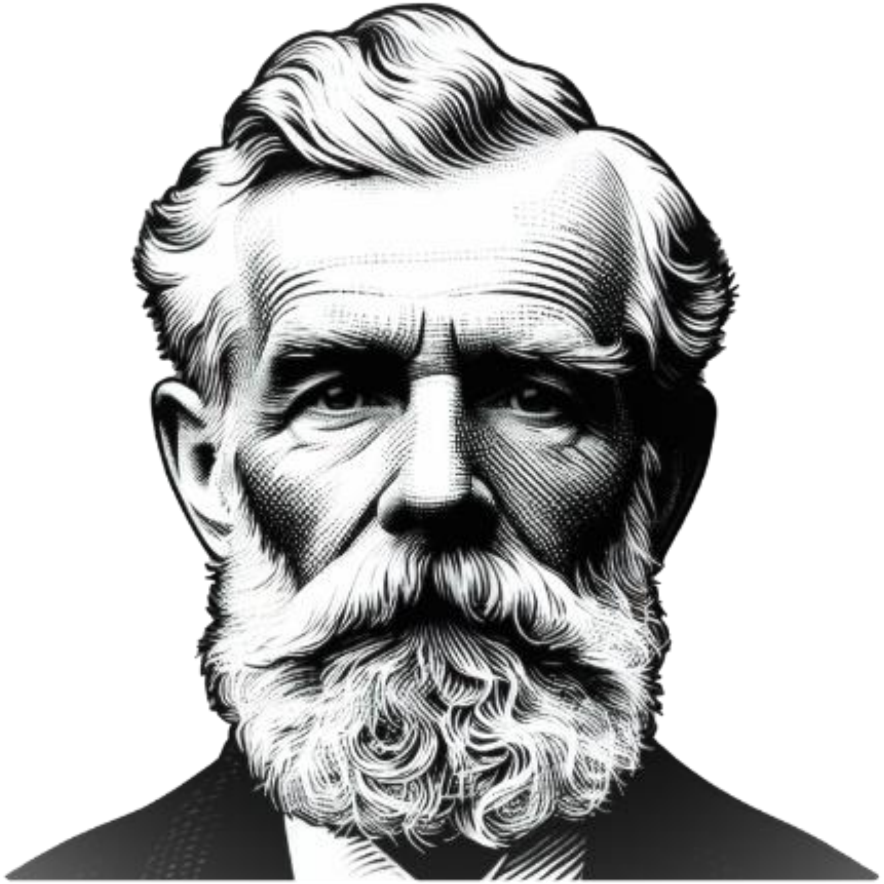
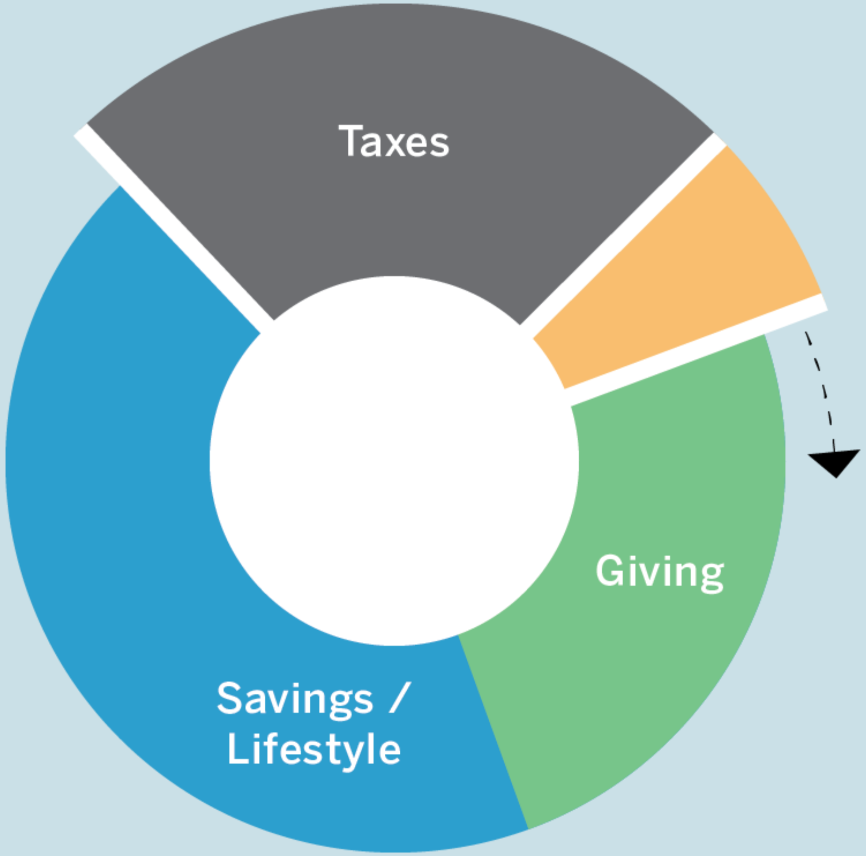


# Increase impact with efficient charitable giving



# Leveraging generosity

Maximize charitable giving:

1. Charitable estate planning
2. Gifting appreciated assets
3. Maximize annual giving
4. Leverage giving beyond the AGI limits

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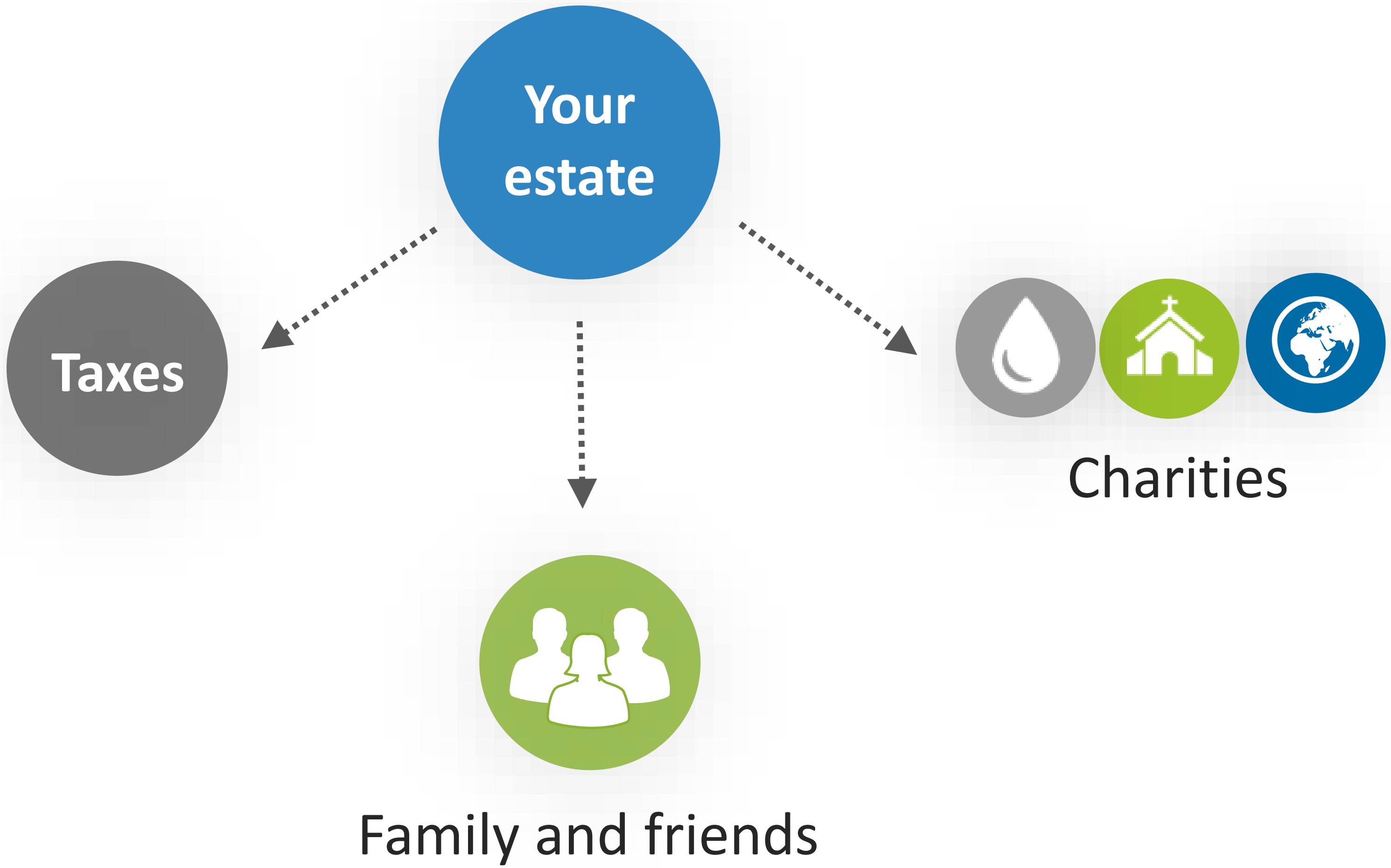
# Giving it all away in the end

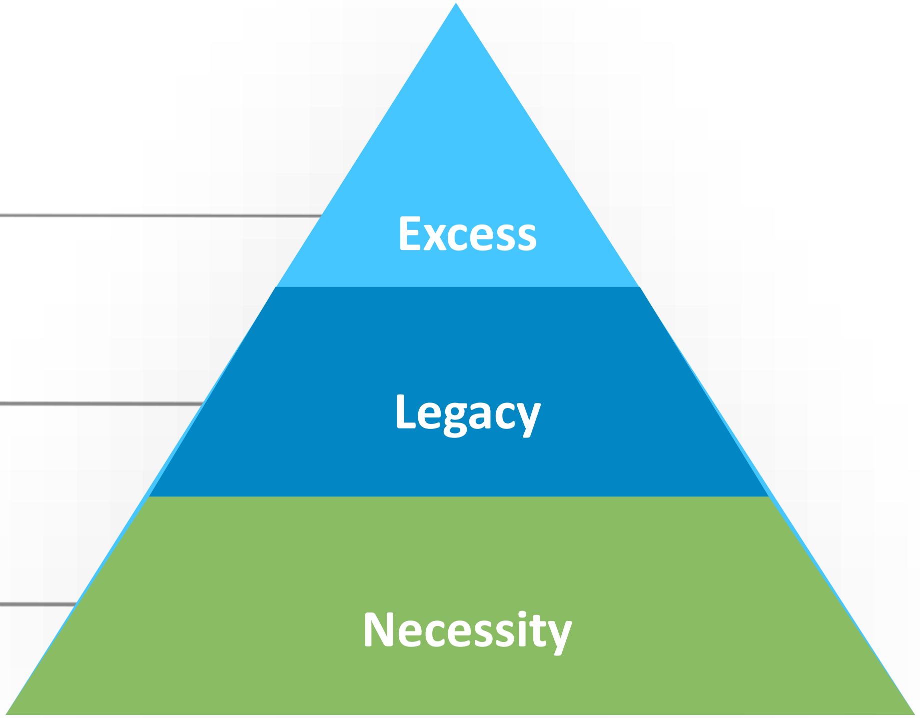


# Three questions to unlock giving potential

What will you do with the rest?

How much should we give to the kids?

How much do I need for myself and my spouse? What's my finish line?



“I want to give my children enough that they feel like they can do anything, but not so much that they might choose to do nothing.”

Warren Buffet

Investor

# Secure target inheritance

Basic estate planning strategies

- Transfer tax exemptions and exclusions
  - Annual gift tax exclusion: $18,000
  - Lifetime gift tax exclusion: $13,610,000
  - Estate tax exclusion: $13,610,000
  - Generation-skipping transfer tax exemption: $13,610,000
- Irrevocable Life Insurance Trust (ILIT)
- Spousal access trust

# Secure target inheritance

Advanced estate planning techniques

- Grantor retained annuity trust (GRAT)
- Intentionally defective irrevocable trust (IDIT)
- Family limited partnership (FLP)/Family limited liability company (FLLC)
- Bond-funded irrevocable life insurance trust (MEPS)
- Inter-family loans
- Charitable lead trust (CLT)
- Qualified personal residence trust (QPRT)

# Charitable legacy

1. Gift or bequest excess wealth to charity.
2. Maximize lifetime charitable gifts.

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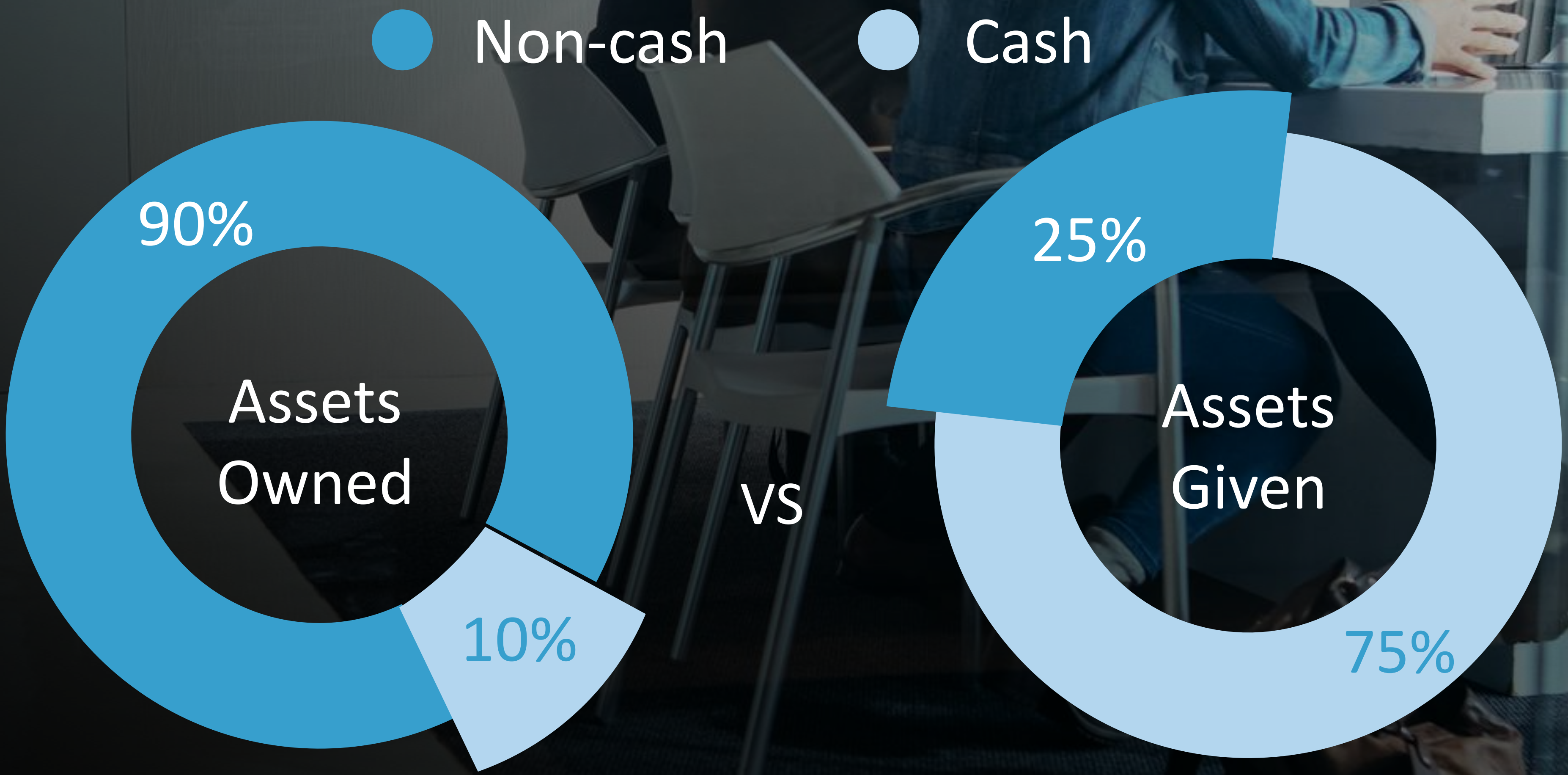
# Strategic giving

## Non-Cash Giving




*Based on IRS averages*

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# Give ahead of a potential sale opportunity

Secure charitable deduction ***and*** reduce or eliminate capital gains tax

Assets to consider

- Marketable securities
- Real estate
- Privately owned business

Consider split-interest arrangements

- Charitable remainder trusts
- Charitable gift annuities

# Diagnosis: Life-giving generosity

Gift of medical staffing business (LLC taxed as a partnership)

1. Business fair market value: $50,000,000
2. Income tax basis: $5,000,000
3. Target gift (10%): $5,000,000
4. Estimated valuation discount: 15%
   As determined by appraiser
5. Tax rates:
   - Ordinary income: 42%
   - Capital gains: 25%

# Gift scenarios

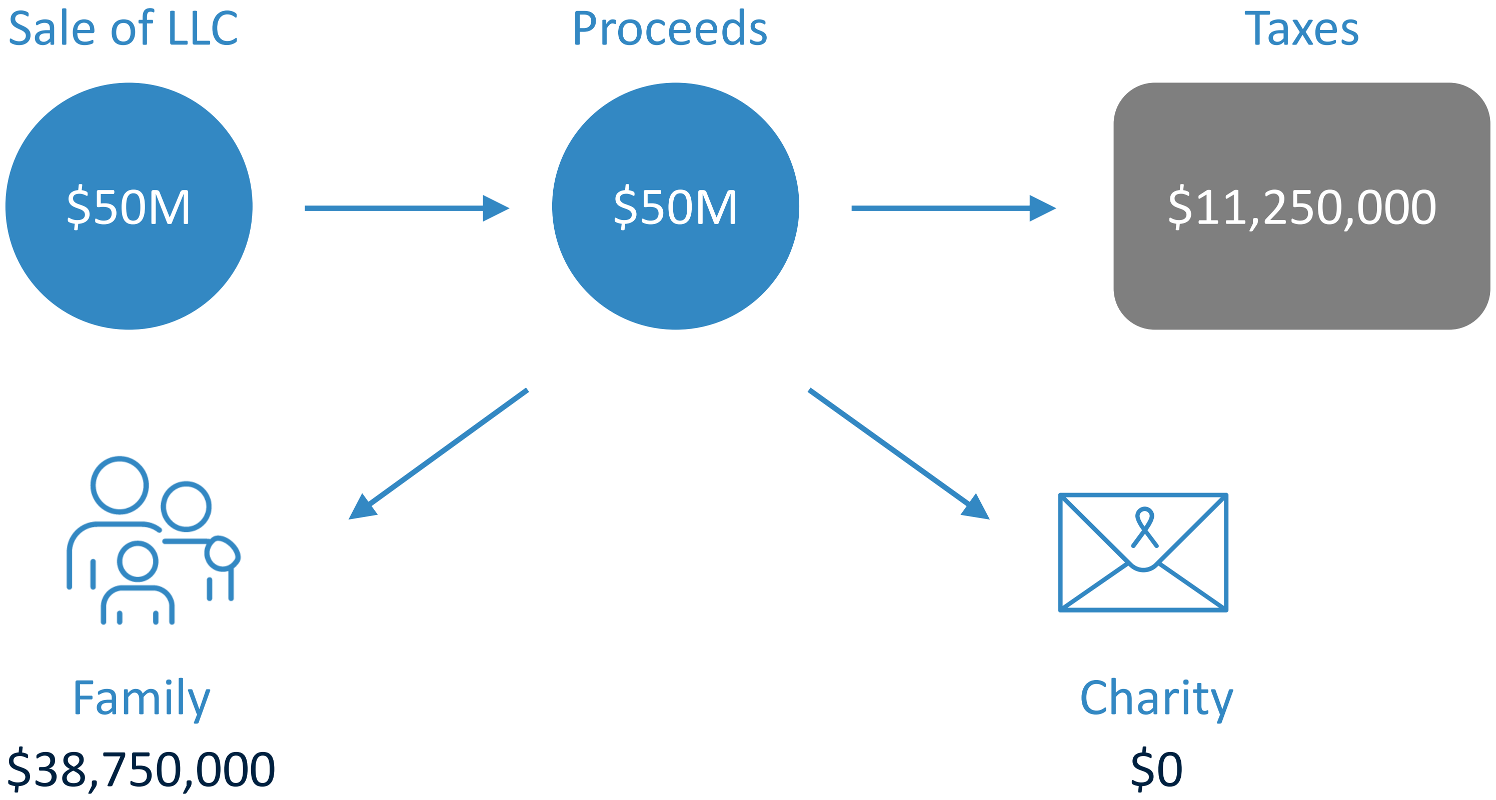
1 No charitable gifts

2 Outright gift of 10% of after-tax cash proceeds from sale

3 Outright gift of 10% interest in business prior to sale

# Scenario #1

No charitable gift



# Scenario #2

10% cash "gift after sale"

Sale of LLC

$50M

Proceeds

$50M

Taxes

$9,622,000

Family

$36,503,000

Charity

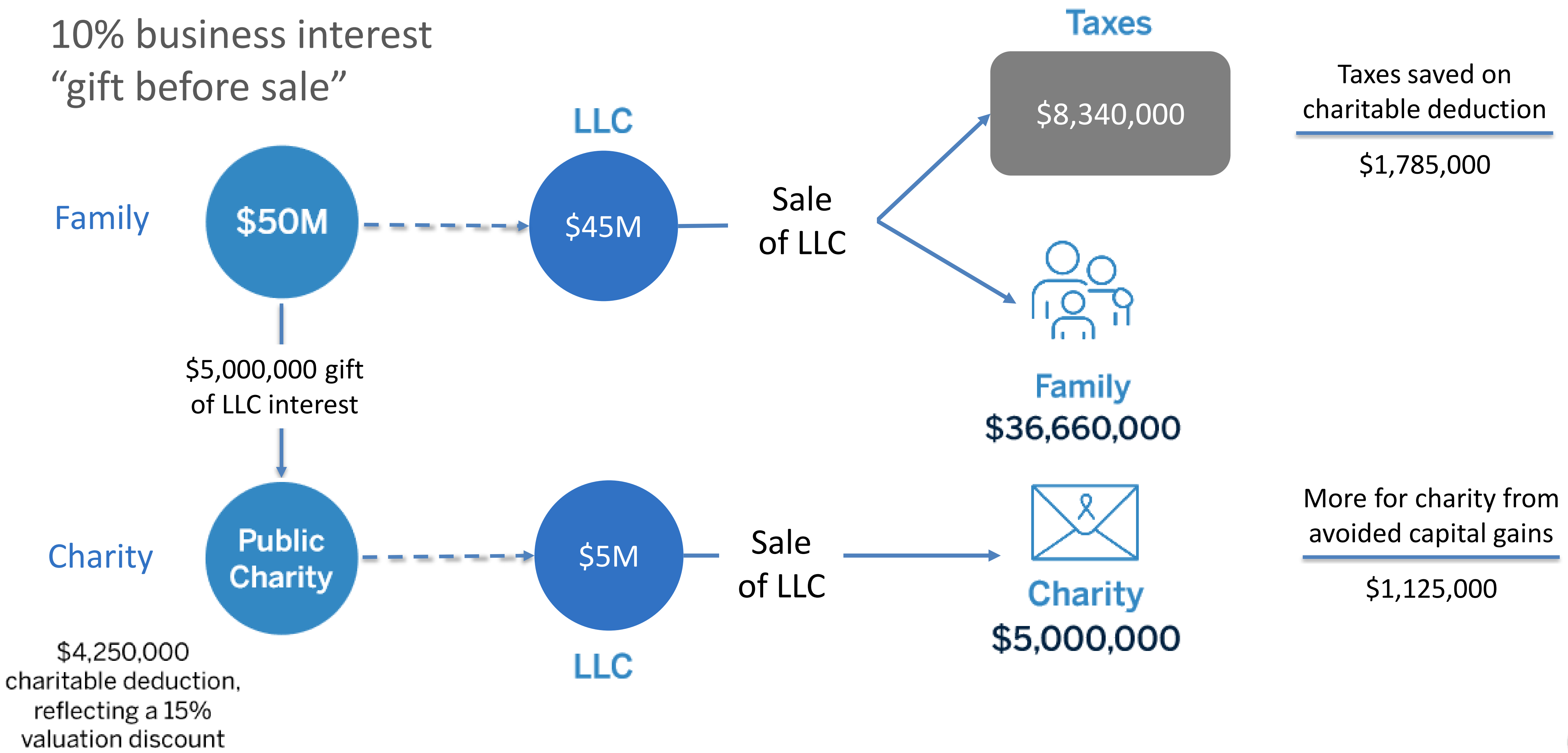
$3,875,000

Capital gains tax

| |
|---:|
| $5,000,000 |
| ($500,000) |
| $4,500,000 |
| 25% |
| $1,125,000 |

# Scenario #3

10% business interest
“gift before sale”



# Gift opportunity

| Scenario | Family | Taxes | Charity |
|---|---|---|---|
| No charitable gifts | $38,750,000 | $11,250,000 | $0 |
| Sell then give 10% | $36,503,000 | $9,622,000 | $3,875,000 |
| Give 10% then sell | $36,660,000 | $8,340,000 | $5,000,000 |

# Gift opportunity

Give before vs. after sale

| Scenario | Family | Taxes | Charity |
|---|---|---|---|
| No charitable gifts | $38,750,000 | $11,250,000 | $0 |
| **Sell then give 10%** | **$36,503,000** | **$9,622,000** | **$3,875,000** |
| **Give 10% then sell** | **$36,660,000** | **$8,340,000** | **$5,000,000** |

**$157,000**
**more for family for greater giving**

**$1,282,000**
**less in taxes**

**$1,125,000**
**more for charity**

# Gift opportunity

Gift business interest prior to sale vs. no gift

| Scenario | Family | Taxes | Charity |
|---|---|---|---|
| **No charitable gifts** | **$38,750,000** | **$11,250,000** | **$0** |
| Sell then give 10% | $36,503,000 | $9,622,000 | $3,875,000 |
| **Give 10% then sell** | **$36,660,000** | **$8,340,000** | **$5,000,000** |

**$2,090,000 less for family**

**$2,910,000 less in taxes**

**$5,000,000 more for charity**

# Leveraging generosity

Maximize charitable giving:

1. Charitable estate planning
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# Maximizing giving by understanding charitable deductions

Take full advantage of the charitable income tax deduction benefits provided by the tax laws

- 60% AGI deduction for cash gifts
- 30% AGI deduction for non-cash gifts
- 50% AGI deduction for combination of cash and non-cash gifts

# Maximizing annual giving

Appropriate assets for consideration:

- Business interests
  - S-Corporations
  - C-Corporations
  - Limited liability companies
  - Partnerships
- Real estate
- Marketable securities
- Cash

# Tax efficiencies

1. Charitable income tax deduction for the giver
2. Charity's tax on income reduced or avoided
3. Charity's tax on future sale reduced or avoided

# Tax deductibility comparison

| | Private foundation | Public charity |
|---|---|---|
| Cash | 30% AGI | 60% AGI |
| Publicly-traded Stock | FMV up to 20% AGI | FMV up to 30% AGI |
| Other Non-cash Assets | Lesser of FMV or BASIS up to 20% AGI | FMV up to 30% AGI |

# Prescription: Leveraged giving

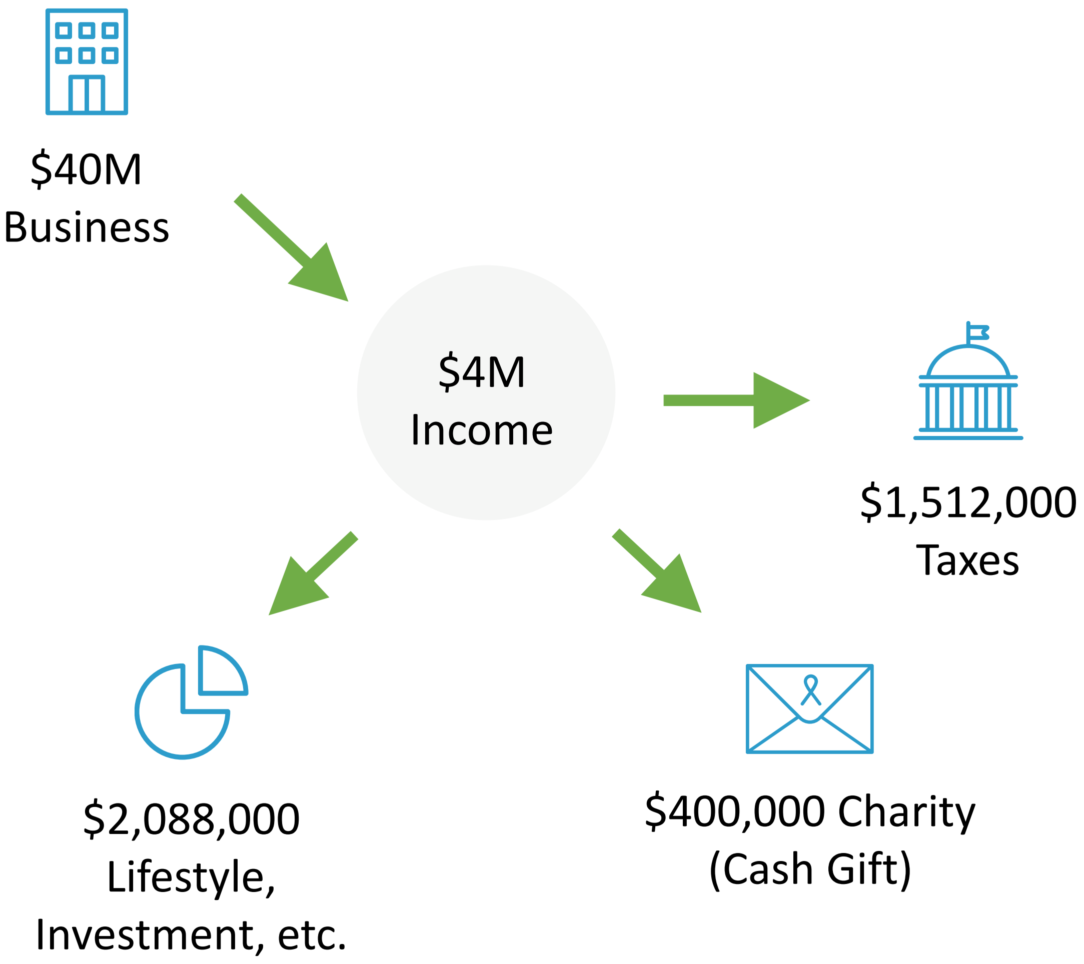
Gift of pharmaceutical distribution company (S-Corp)

- FMV - $40M after valuation discount
- AGI – $4M
- Annual Giving – 10% or $400K

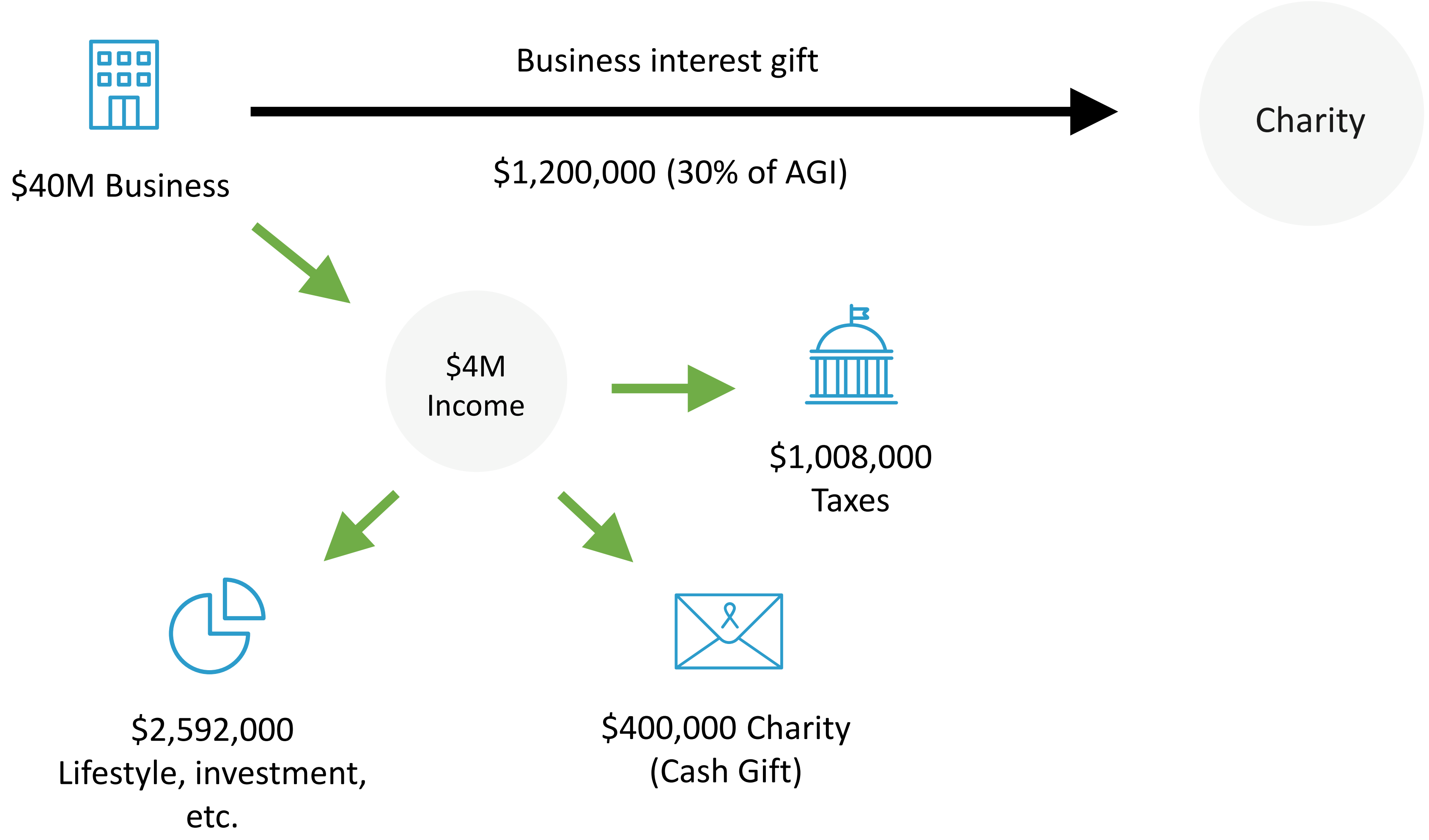
## Giver Tax Rates

- Ordinary Income (fed/st) - 42%
- Capital Gain (fed/st) - 25%
- NIIT - 0%

# Current situation: 10% AGI Giving



# Solution: 10% to 40% AGI Giving



# The opportunity to give more

10% AGI
cash gifts

+

30% AGI
non-cash gift

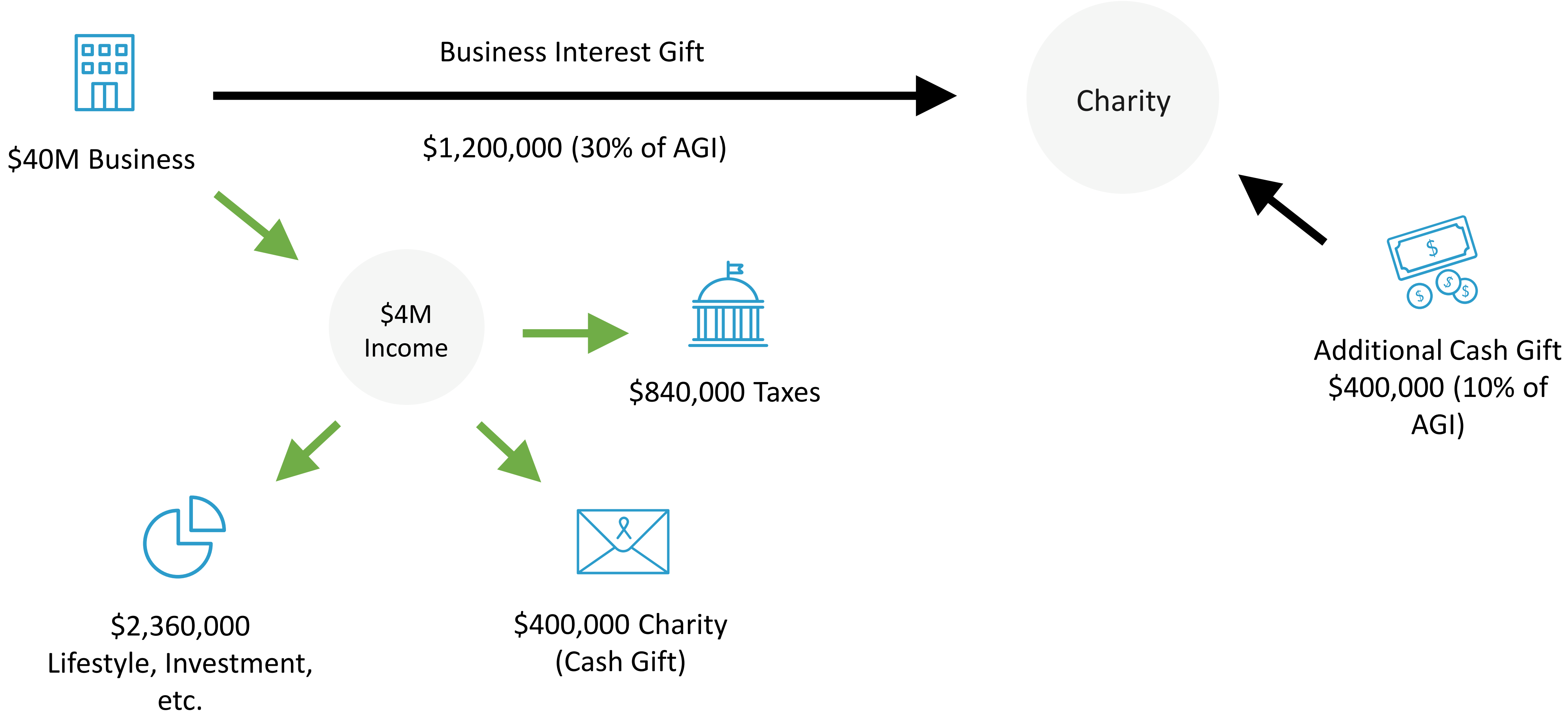
+

10% AGI cash gifts
(from tax savings)

→

50% AGI
total giving

# Solution: 40% to 50% AGI giving



# Observations

- 30% AGI gift generally requires a gift of 2% to 4% of the value of the giver’s business
- Value of business generally increases at a higher rate; therefore, on average, a giver could seek to give the appreciation to charity
- Additional tax efficient results from annual income and upon eventual sale of the business, all yielding greater charitable impact

# Technical issues and considerations

- Charitable entity
- Nature of business entity
- Voting vs. non-voting
- Charitable income tax deduction
- Excess business holdings
- Unrelated business taxable income

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# Leveraging giving beyond the AGI limits

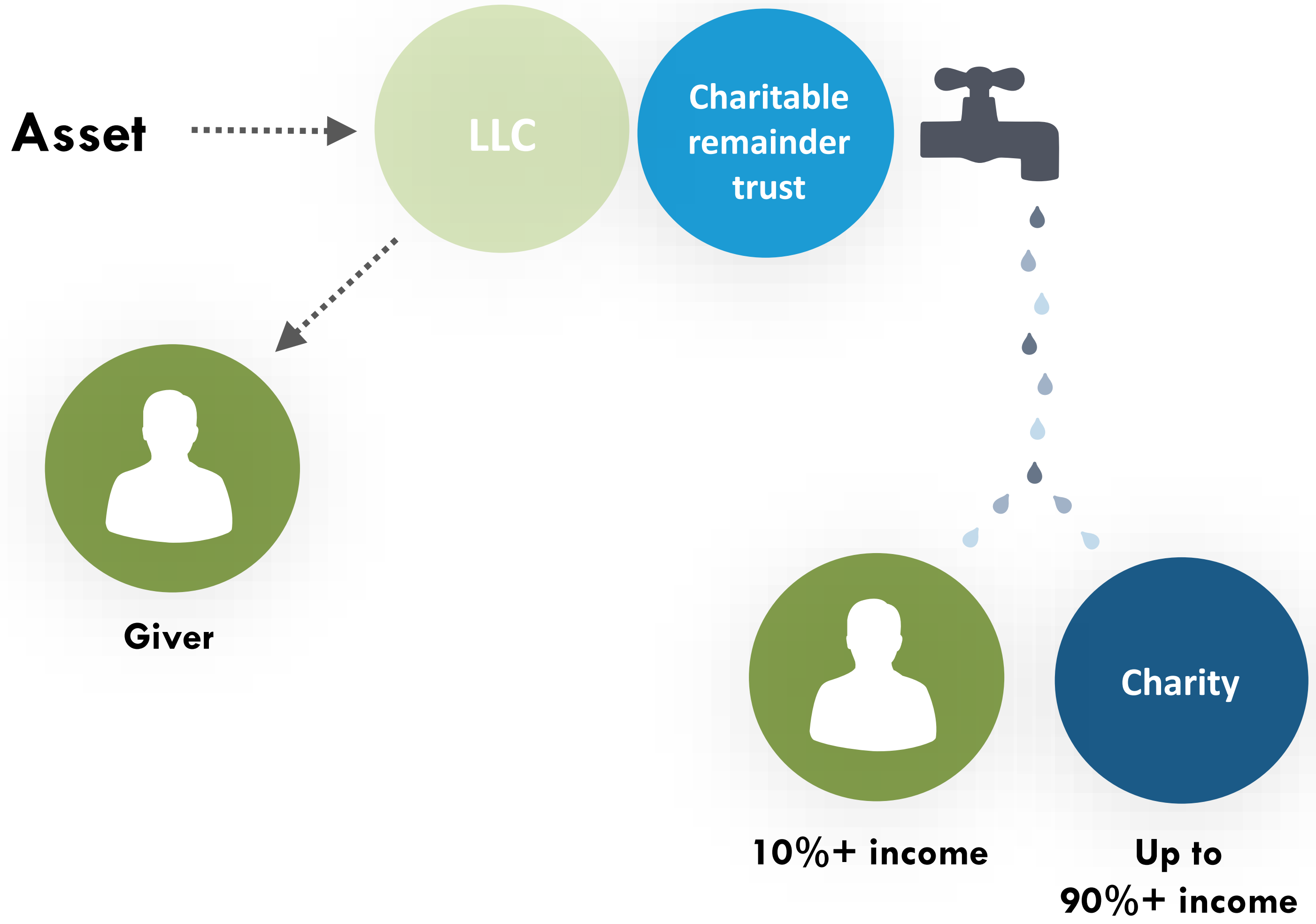
# Giving strategies

Strategies for giving champions (50%+ AGI givers)

Strategies for a “no charitable deduction” environment

- Faucet net income with make-up charitable remainder unitrust (NIMCRUT)
- Non-grantor charitable lead trust (CLT)
- Gifts of income producing assets exempt from unrelated business taxable income (UBTI)
- Investing through private placement deferred annuities (PPDA)

# Faucet net income with make-up CRUT



# Tax savings beyond 30%/50% AGI giving

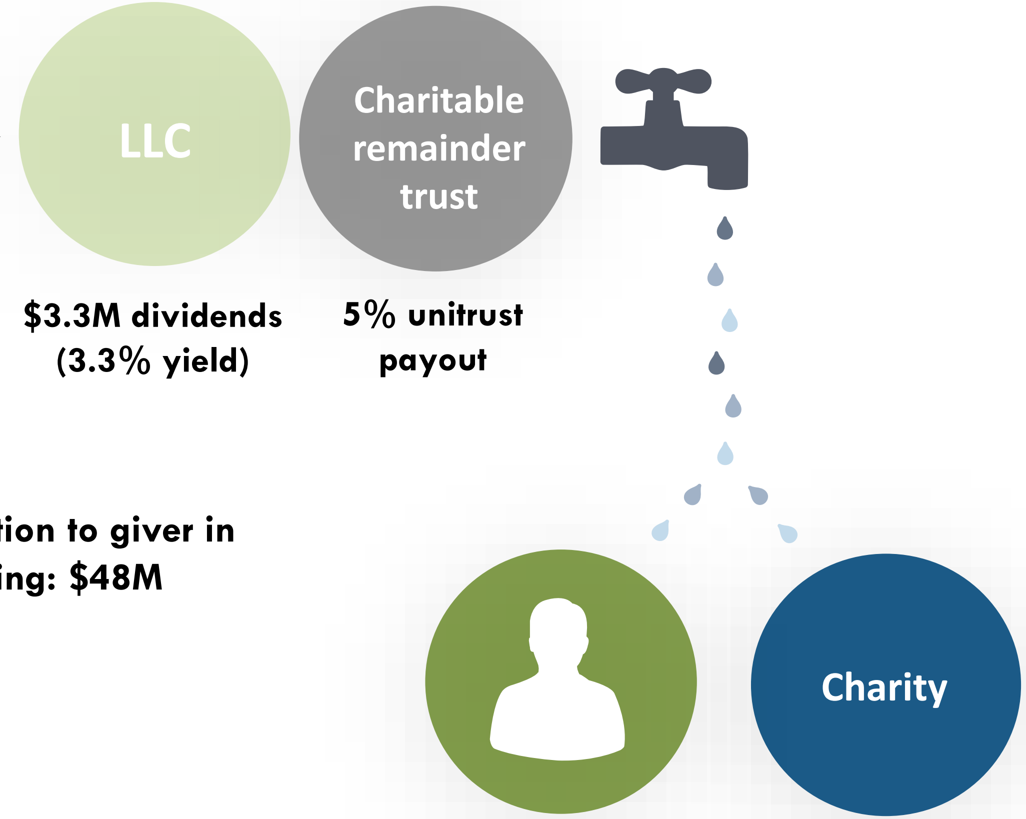
Concentrated publicly traded stock

1. Husband built business that eventually went public
2. Estate valued at $1.5 billion, with the publicly traded stock representing about $1.2 billion
3. Estate plan: $750 million to children, $750 million to charity
4. Annual AGI in excess of $30 million
5. Charitable giving equals or exceeds 50% of AGI

# Faucet CRUT

*Publicly traded stock with 3.3% dividend*

**Asset: $100M**




**$3.3M dividends (3.3% yield)**

**5% unitrust payout**

**Charitable deduction to giver in year of funding: $48M**

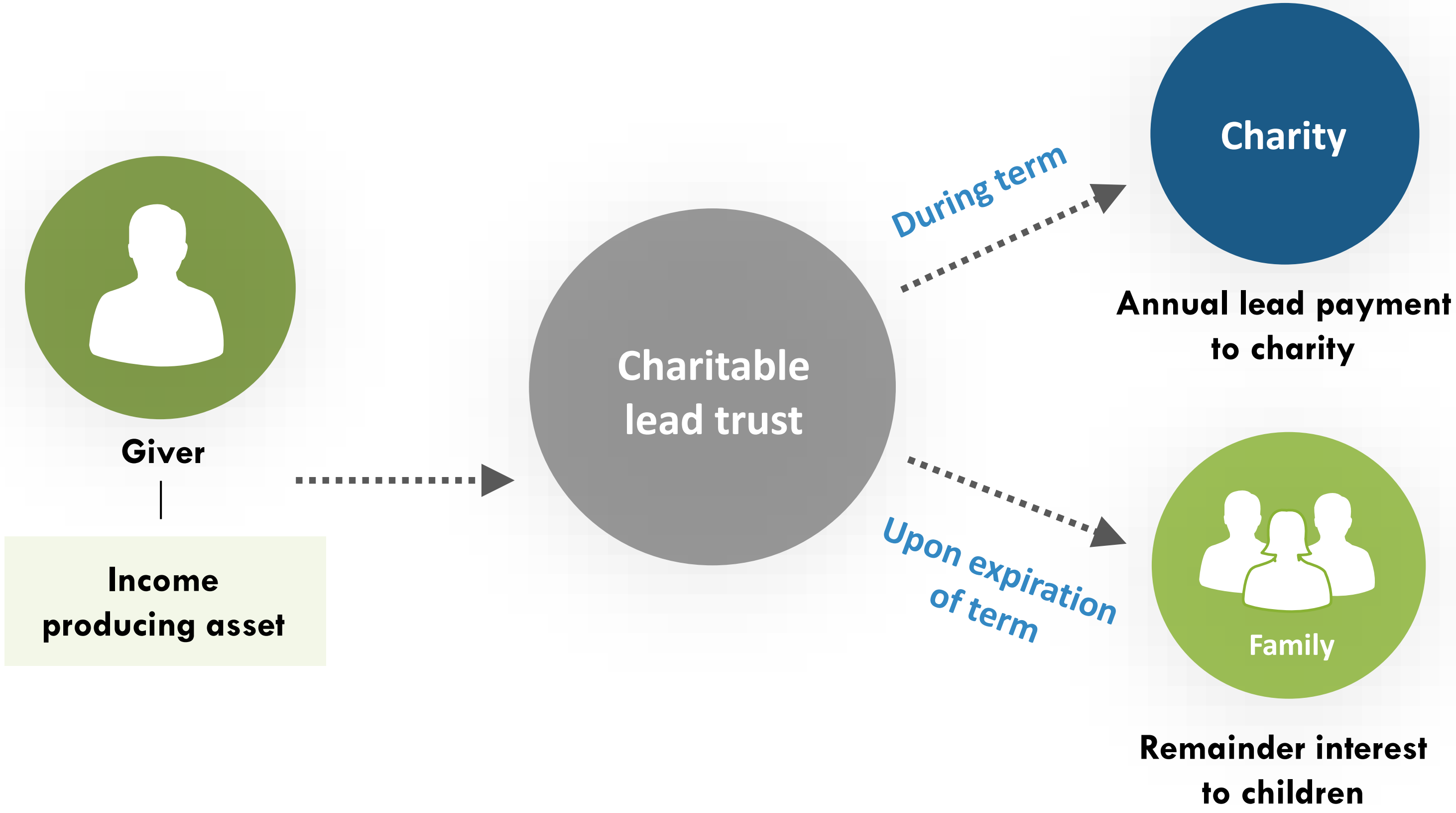
**Charitable remainder: $317M (15 years)**

**Dividend income: $57M**
**Potential tax deferral: $16.4M (accruing to the benefit of charity)**

**Assumptions:**

1. Joint CRUT: Ages 76 & 74
2. Joint life expectancy: 15 Years
3. 7520 rate: 2.4%
4. Total return: 8%
   - Dividend yield: 3.3%
   - Appreciation: 4.7%
5. Growth in dividend: 2%
6. Tax rate: 28.7%
   - Federal: 20%
   - State: 4.9%
   - Net investment income: 3.8%

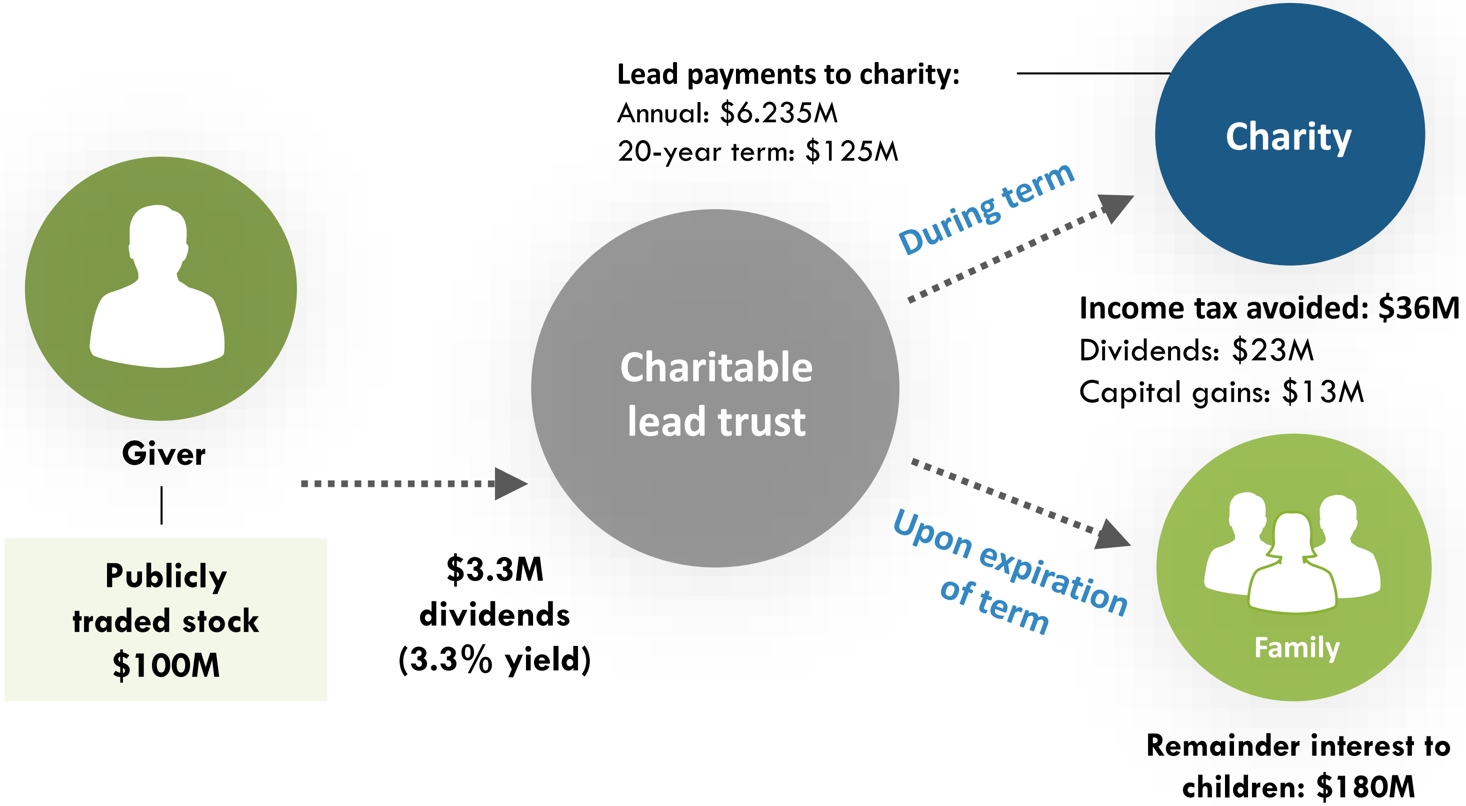
# Non-grantor charitable lead trust




If the charitable lead payments are equal to or greater than the trust's income, the trust can utilize its 100% charitable deduction against total income and have no taxable income.

# Non-grantor charitable lead trust

*Publicly traded stock with 3.3% dividend*




**Assumptions:**

1. Term: 20 years
2. 7520 Rate: 2.2%
3. Total return: 8%
   - Dividend yield: 3.3%
   - Appreciation: 4.7%
4. Growth in dividend: 2%
5. Tax rate: 28.7%
   - Federal: 20%
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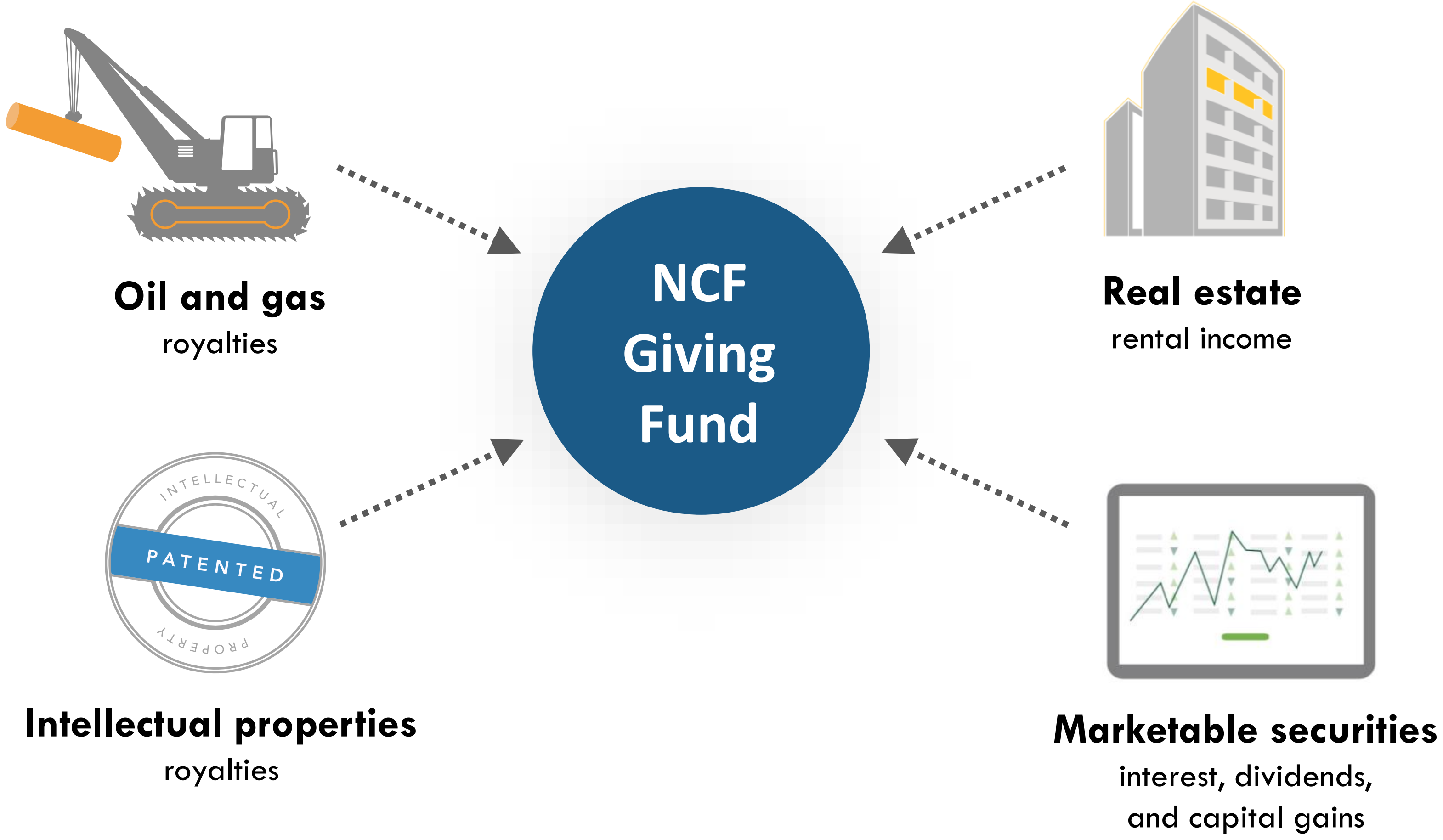
# Non-UBTI producing assets



# Non-UBTI producing assets

## Real estate

- Large distributor of Fortune 100 company’s products
- Warehouse facilities and office building owned by the owner and leased to the company
- Real estate unencumbered, valued at $18 million, and produces $1.5 million in annual rental income
- Giver’s tax rate is 48.65% on rental income
- Charitable giving equals or exceeds 50% of AGI
- Gift of real estate:
  - Avoid $729,750 tax on annual rental income
  - Over 10 years, avoid over $7 million in taxes

# Non-UBTI producing assets

## Royalty income

- Commercial security-related business
  - Numerous patents related to security products
  - Four related business entities
  - One LLC entity owns all intellectual property
- Annual AGI of $6 million
  - $1 million representing royalty income to the IP entity
- Reverse tither: give 90% of income each year, live on remaining 10%
- Charitable gift of 99% interest in IP entity to charity
  - Fairness opinion: reasonable royalty payments could be tripled to $3 million
  - Giver's tax rate is 43.4% on royalty income
  - Charity avoids $1.3 million in taxes on annual royalty income in per year, $13M over 10 years

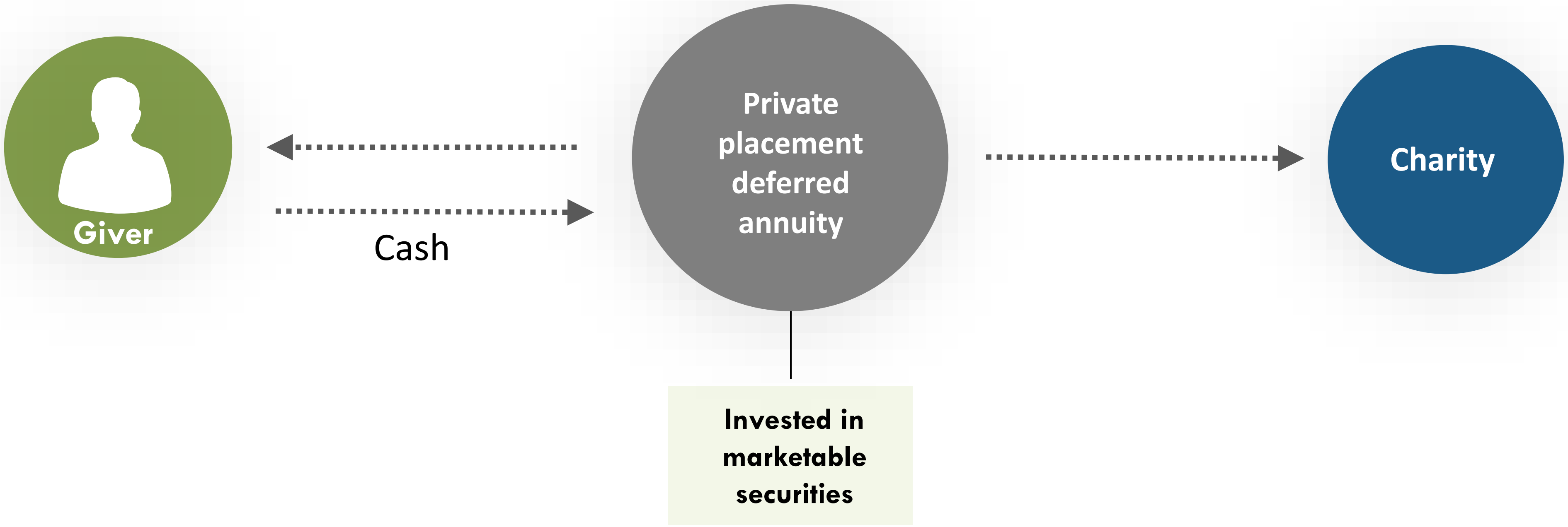
# Private placement deferred annuity

**During life**

- Annuity payments /distributions available to giver (taxed upon distribution)
- Income tax otherwise deferred

**After death**

- Assets distributed to charity
- Charity not subject to tax on distributions



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