PLANNING FOR THE FUTURE

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Your plans for your goals

The future promises to be exciting and challenging for all. Whether you are single, married, raising a family, planning for or enjoying retirement, your financial security and the security of those you care about most will be affected by the plans you make today.

To help you attain both your personal and philanthropic goals, this booklet briefly outlines nine different planning opportunities. Read on to see how one or more of these ideas could help enhance your financial well-being and that of your loved ones, while also enabling you to make meaningful charitable gifts.

Please contact us if you have questions or would like additional information for you and your advisors.

1 Benefiting others through your will

In addition to being the most common way to distribute assets to loved ones in the future, a will can also be a thoughtful way to make charitable gifts.

After first providing for the needs of family and friends, you may choose to benefit charitable interests in one of several ways.

By having your attorney revise your will or add a simple amendment, you can give what remains after you remember loved ones, whether a particular amount, a specific property or a percentage of your estate.

You may also wish to name charitable interests to receive gifts in case others do not survive you.

Example: Mrs. Franklin has enjoyed making charitable gifts over the years and would like to continue her support in the future.

When she first had her will drafted, she included charitable gifts that would take effect only if her children did not survive her.

Now that her children are financially independent and she does not expect her estate to be subject to taxes, Mrs. Franklin has decided to make the charitable gifts in her will more specific, while still leaving the majority of her estate to her children.

2 Giving through revocable living trusts

A living trust is a legal arrangement that allows a trustee to hold title to assets and manage them for beneficiaries. In recent years, these trusts have become a popular alternative or supplement to a last will and testament; they can hold assets during one's life and distribute them at a later date.

A revocable living trust can both minimize the expense and delays of probate and act as a tool for making charitable gifts.

Much like a charitable provision in a will, such gifts are deductible from state and/or federal estate taxes that might otherwise be due, and can be designed to take effect only after first providing for your loved ones.

Example: Mr. and Mrs. Robertson are in the process of reviewing their estate plans. As part of their planning, they decide to create revocable living trusts that will eventually manage and transfer much of their property.

Their existing wills contain charitable gifts. Their advisors have recommended they confirm these bequests in their living trusts. By doing so, the Robertsons can ensure their wishes will be carried out, whether their assets are primarily distributed under the terms of their living trusts or their wills.

3 Gifts featuring income that never changes

Did you know there are ways to give while enjoying an additional source of income for life or other period of time?

Generous payments based on your age and other factors can be a welcome supplement to your retirement income.

Your funds may be held separately or combined with those of others and invested to make regular payments of fixed amounts to you and/or others you name.

When the payments end, funds that remain are used for charitable purposes. You may also realize tax savings at the time you make your gift. The amount depends on your age, size of payments and other factors.

Example: Mrs. Lemaster owns stock worth $100,000 that originally cost $20,000 and currently pays dividends of just 1%.

She decides to use the stock to fund a gift that will provide her with fixed payments of 7.1% for the rest of her life.

As a result, Mrs. Lemaster increases her income, bypasses capital gains tax at the time of her gift and enjoys a sizeable income tax deduction—all while making a meaningful gift.

4 Gifts featuring variable income

Other gift planning options feature income for you or others that will vary over time depending on the performance of the assets used to fund the gift.

At the time of your gift, you determine a maximum annual payout percentage. The income you receive will be more if the value of the gift assets increases, and less if the value declines.

A charitable income tax deduction is allowed for a portion of the amount you contribute in this way. You may enjoy capital gains tax savings as well.

For many people, such gifts can be a welcome source of additional income that can grow over time.

Example: Mr. Greene chooses to give low-yielding securities worth $250,000 to fund a gift that provides payments of 5% of the value of the assets each year. The first year he receives $12,500. The next year, if the assets are worth $275,000, his income grows to $13,750 (5% of $275,000).

He is entitled to an income tax deduction of more than $125,000 and pays no capital gains tax at the time his gift is completed.

Had Mr. Greene sold the appreciated securities and invested the proceeds after payment of capital gains tax, his income may have been substantially less over time.

5 Make a gift while providing for loved ones

Did you know you can make a gift over time while providing that assets used to fund the gift will ultimately be returned to you or your loved ones? This is possible through a *charitable lead trust.*

Under the terms of this gift plan, assets are transferred to a trust that makes payments to one or more charitable recipients for a number of years you determine. At the end of that period, trust assets are transferred to those you name.

This can be a way to make charitable gifts over time and control when an inheritance will be received. You can also reduce or eliminate gift and/or estate taxes that might otherwise be due in some instances.

Example: Mrs. Swain has considered making a significant charitable gift over time. She would also like to provide for her four grandchildren, ages 17 through 27.

After conferring with her advisors, Mrs. Swain decides to create a charitable lead trust that will make annual payments to a charitable beneficiary for 18 years, with the assets then passing to her grandchildren completely free of gift or estate tax that may otherwise have been due.

In this way, Mrs. Swain makes her desired charitable gift while ensuring that assets will still ultimately pass to her heirs.

6 Give a residence and continue to live there

You can also make a gift of real estate while enjoying the use of the property for life or another period of time. Through such an arrangement you can give a personal residence or farm while reserving the right to live there as long as you wish.

You continue to pay the taxes, maintain the property and even receive any income it generates. By arranging for the eventual transfer of the property for charitable purposes, you are entitled to an immediate (and substantial) income tax deduction. The property is also removed from your estate for probate and possibly tax purposes.

Example: Miss Coughlin lives in the family home left to her by her parents. She plans to leave most of her assets to her nieces and nephews, but would like to make charitable gifts through her estate as well.

After consulting with her advisors, she decides to make a gift of her home now, while retaining the right to live in it for the rest of her life.

As a result, Miss Coughlin is entitled to a federal income tax deduction equal to about 75% of the value of her home, which could eliminate taxes on a portion of her income in the year of her gift and in up to five future years.

7 Gifts of life insurance

The need for life insurance can change over time. Insurance policies originally purchased for additional income or payment of taxes may instead be used for other purposes.

One way to make a significant gift is to name a charitable beneficiary to receive all or a portion of the proceeds of a policy. Or, you may make a gift today of a policy you no longer need and perhaps benefit from immediate tax savings.

Other options include transferring ownership of an existing policy on which premiums are still being paid, or purchasing a new policy and naming a charitable beneficiary. In either case, future premiums can be tax deductible.

Example: Mr. and Mrs. Arnold purchased a $250,000 life insurance policy some years ago to provide funds for the payment of estate taxes. Their advisor recently informed them they should no longer expect to owe these taxes.

They decide to change the policy beneficiary and designate $50,000 as a memorial gift in honor of Mr. Arnold's parents. The Arnolds' grandchildren will receive the remaining $200,000 in equal shares.

8 Giving through retirement plans

Whether you participate in a company-sponsored retirement plan or have funded an Individual Retirement Account (IRA) or other plan, you may feel you have more funds than you need to provide for your future financial security. In that case, it may be convenient to make a charitable gift from retirement assets during your lifetime or at death.

Funds remaining in retirement plans can be subject to federal income tax, so it can be wise to make charitable gifts from these sources and leave other non-taxable assets to loved ones.

Those age 70½ or older can now make tax-free charitable gifts directly from a qualifying IRA, in amounts totaling up to $100,000 per year.

Example: Mr. Noble, age 75, has been contributing to an IRA for a number of years. His wife recently passed away and he has accumulated more than he anticipates needing to maintain a comfortable lifestyle.

After checking with his advisors, he learns it will be better from a tax planning perspective to make charitable gifts this year from his retirement account.

Mr. Noble also directs that amounts remaining in his IRA at the end of his lifetime be used to fund charitable gifts through his estate.

9 Gifts of lasting significance

With any of the ideas introduced here, you can also provide for an enduring tribute to a family member or other loved one. There may be no better way to honor a loved one or their memory than through a special charitable gift.

Gifts in honor of others can be especially thoughtful on Mother's Day, Father's Day, upon the birth of a child or grandchild, on a birthday, at a wedding, anniversary or graduation—virtually any time you wish to express, in a special way, how much you care.

We will be glad to assist you in choosing an appropriate way to make a gift in honor of someone special to you.

Example: After her husband passed away, Mrs. Wright wanted to make memorial gifts in his memory.

After discussing a number of options with her financial advisors, she decided to honor her husband by establishing an endowment fund in his memory. The fund will provide continuous support for his area of interest.

Mrs. Wright will also add to the fund in the future through provisions she is making in her estate and financial plans.

Tax considerations

An unlimited amount of charitable gifts may be deducted from federal estate and gift taxes. See Internal Revenue Code section 2055(a). Check applicable state laws for restrictions that may apply.

The marital deduction: Some married people use trusts in their wills to take maximum advantage of the unlimited marital deduction. In the case of a life interest left to a spouse followed by a charitable disposition of the property, a combination of the charitable deduction and the marital deduction will effectively eliminate all tax at the federal level. See IRC sections 2523(a) and 2056(a).

Gift and estate taxes: The *Tax Cuts and Jobs Act of 2017* continued the trend toward reducing the impact of federal estate and gift taxes on personal estate planning. The maximum federal estate and gift tax rate remains 40% for estate and/or gift taxes beyond the exemption amount. Effective January 1, 2018, the act doubled the estate and gift tax exemption amount to $10 million for individuals and $20 million for a married couple, adjusted for inflation since 2011. The exemption amounts for 2019 are $11.4 million for singles and $22.8 million for married couples. These amounts will continue to be indexed for inflation in future years. Check for latest amounts.

Generation skipping transfer (GST) tax: This area of the law is quite complicated; however, charitable gifts may minimize the amount of transfer tax owed for some estates. It is one consideration to explore if the support of future generations is one of the person's goals and if the estate would otherwise be affected by the generation skipping transfer tax. Under terms of federal tax legislation in 2017, the amount exempt from the GST tax was also doubled to $11.4 million per individual (as indexed for inflation) for 2019.

For details on the GST tax, see Code sections 2601–2663 and the corresponding regulations, and check for the latest changes in the law governing this provision.

More information

If the ideas presented here are of interest to you, we recommend discussing your plans with your professional advisors. Please contact us if we can help you with your charitable planning.

The following section may help you assemble your thoughts about how you may wish to meet multiple needs through thoughtful charitable and estate planning.

My Plans

When considering your personal and charitable goals, it can be helpful to think of the process of planning to achieve them in terms of the "Four Ps."

- *People.* Who are the family, friends, associates and charitable interests for whom you would like to provide?
- *Property.* List all of your property, in whatever form, along with its cost, current value and the way it is owned. Include any debt and income associated with various assets.
- *Plans.* Consider how you would like to match your property with the people (and charitable interests) you have listed. Would you like certain people to receive particular assets? Or would a sum of cash be more appropriate?
- *Planners.* List the professional advisors who assist you in making your plans a reality. This may include your attorney, your accountant, a banker or other financial professional.

Once you have completed your list, decide the person you would like to take the lead in helping you implement your plans.

It is important that your plans be reviewed and updated periodically in light of changes in federal and or state tax provisions and other laws that may apply in your situation.

You may also wish to consult with charities you may wish to benefit regarding your wishes for your gifts.

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