



TAX SMART Giving



Through Life Events

“Each of you should use whatever gift you have received to serve others, as faithful stewards of God’s grace in its various forms.”

1 Peter 4:10

Introduction

Just like rivers are formed by tributaries, each of us have been shaped by the family that raised us; by the peaks and valleys of life's experiences; and by our Christian faith. Just as life has its ups and downs, we learn that life is a two way street that involves seasons where we are able to give and seasons that require us to receive. It's like breathing. Breathing is an exercise that takes oxygen into our lungs where it is converted into carbon dioxide as it is expelled. Ideally we do not live at either extreme. We live in the balance of giving and receiving.

A Generosity Plan provides you with the strategy to take the things that you have received, whether it be your time, talents, treasures or values, and steward those resources toward recipients with whom you closely identify that also perpetuate your values.

The word, "Generosity"...

The original word used by the Apostle Paul meant "single minded sharing," and speaks of both the clarity and sincerity of one's gift. According to Scripture, generosity is a paradigm for all ages and economic classes.

"The question is not "can you be generous?" or even "are you generous?" The question is "Will you be generous?""

Introduction

Your generosity plan will seek to answer three important questions that we don't often consider:

1. How much is enough (for me)? Am I content? Do I feel financially secure?
2. How much do I want to pass to my heirs? Will what I leave for them help them? Or will it hurt them? Will it continue my legacy? Or will it create dependence?
3. What do I want to do with what is left over? Can I support the charitable organizations that have brought meaning to my life who will continue to honor my values? Or will I simply leave them money?

By crafting a plan, you can give without regret or reservation. Like a coach's game plan, it anticipates challenges and builds on the strength of one's own resources.

This study guide will help you prepare a generosity game plan so you can participate in God's economy, allowing Him to richly bless you for your well managed and obedient lifestyle.

LIFE EVENTS

WHAT IS A LIFE EVENT?

A life event is something that happens that causes a redeployment of financial resources for personal benefit or the benefit of others (e.g. family).

- Life events can happen to us as well as affect us by way of loved ones.
- Life events usually happen in the normal chronology of life, but there can be exceptions.



The first is the Emergent Stage of Life (Millennials). The Emergent Stage describes the demographic of adults who are between the ages of 21 and 39. Many are single, many have married and have children, but all of them face the struggle of beginning their careers while balancing significant debt, low income, and lots of expenses.



The second life stage is the Experiential Stage (Gen X), describing the lives of those age 40 to their mid fifties. They have raised their children while focusing on their career paths and have invested in their children's college education and wedding expenses. At the same time they have focused on debt retirement and adjusted to empty nesting.



Beginning in their mid 50's to mid 60's adults enter the Established Stage of Life (Boomers). These years represent the prime earning years of adults with a focus on investments and retirement planning. Their primary home is paid for, and wise investing may yield an additional home. They also may be faced with the responsibility of "parenting their parents," and find it necessary to support them as they face health challenges. In this period additional monies from bequests may impact their investment thinking and strategy.

LIFE EVENTS



By age 65, most adults transition into Retirement, or the Experienced State of Life (Boomers and Silent), where careful planning has resulted in a fixed income that allows them to maintain their standard of living without significant adjustments. During retirement, their giving begins to give consideration to tax implications and potential tax savings, resulting in gifts made from accumulated and appreciated assets. Beginning at age 70, retirees begin to consider making transformational gifts as they divest assets and work toward simplifying their lives. Having planned wisely, this demographic is able to create planned gifts to charitable organizations that are in harmony with their Christian values that provide an earthly testimony to the faithfulness of God.

SIX LIFE EVENTS THAT WILL AFFECT MOST PEOPLE:

1. Disposition of non-essential, low-cost basis, low appreciating, non/low-income producing assets.
2. Real Estate
3. Retirement Assets (e.g., IRA, 401K)
4. Stocks and Bonds Portfolio
5. Business Interest
6. Long-term Care

THREE CONSIDERATIONS FOR LIFE EVENTS:

1. Determine “when” to give
2. Determine “what” to give
3. Determine “how” to give

LIFE EVENTS

List Three (3) Life Events that You Anticipate in the Next 3-5 years:

1. _____

2. _____

3. _____

TAX SMART GIVING TOOLS

There are three ways a person can utilize a charitable gift for tax savings:

1. Outright Gifts of Non Cash Assets
2. Split Interest Gift where the giver trades an appreciated asset for a stream of income
3. Testamentary Gift or Bequest (We will do a more enhanced discussion of end of life gifts in our wills and trusts workshop, but for now you can leave a dollar amount, a percentage, or an assignment)

TAX SMART GIVING TOOLS

OUTRIGHT GIFTS OF NON CASH ASSETS

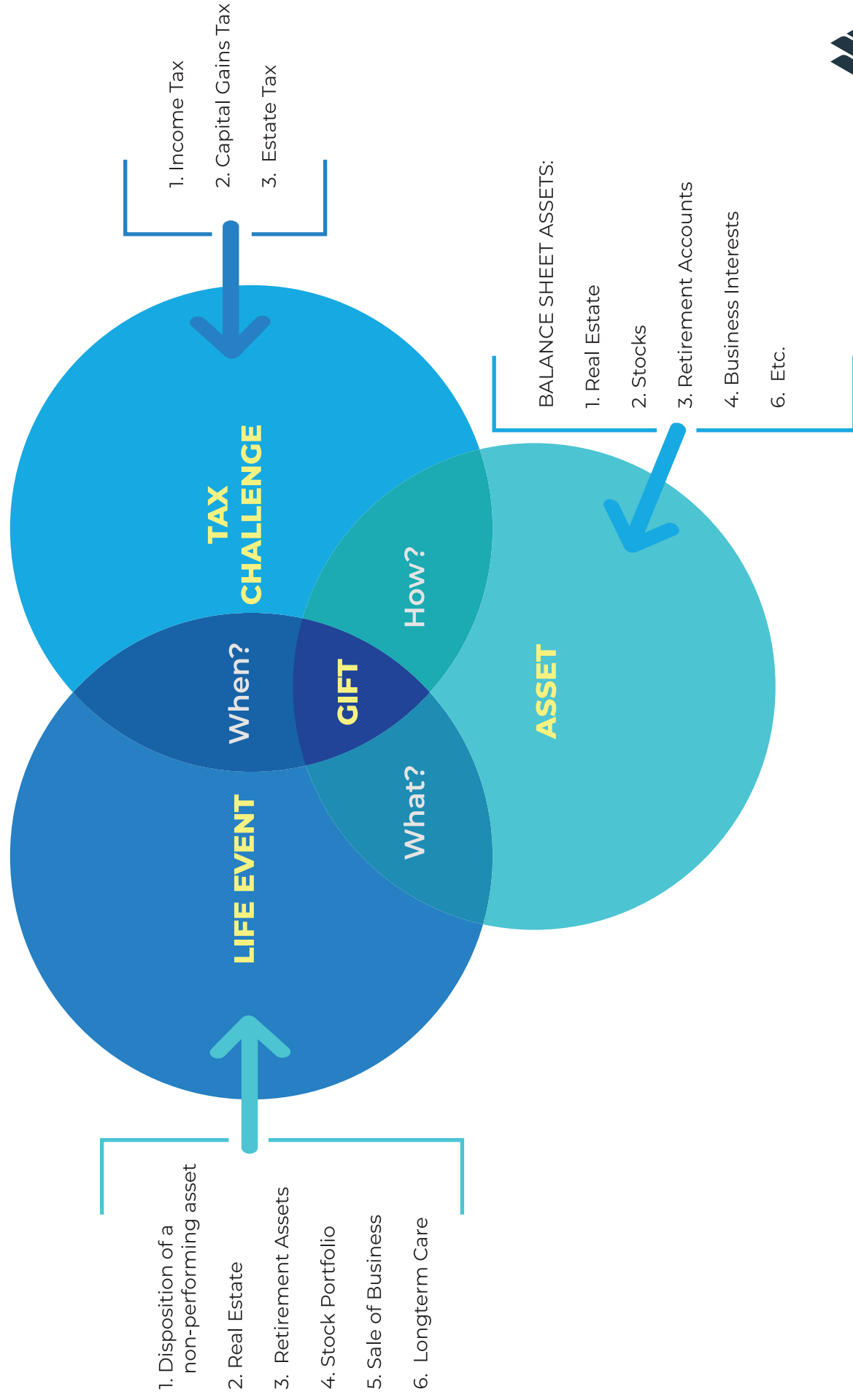
INSTRUMENT	INCOME TAX	CAPITAL GAINS TAX	ESTATE TAX
Real Estate	✓	✓	✓
Appreciated Securities	✓	✓	✓
Personal Property	✓	Depends	✓
Retained Life Interest	✓	✓	✓

SPLIT INTEREST GIFTS

INSTRUMENT	INCOME TAX	CAPITAL GAINS TAX	ESTATE TAX
Charitable Gift Annuity (CGA)	✓	✓	%
Charitable Remainder Trust (CRT)	✓	✓	%
Charitable Lead Trust (CLT)	✓	Depends	Depends
Pooled Income Fund (PIF)	✓	✓	✓

TAX SMART GIVING

OVERVIEW



TAX SMART GIVING TOOLS

DONOR ADVISED FUNDS

A donor-advised fund is like a charitable investment account, for the sole purpose of supporting charitable organizations you care about. When you contribute cash, securities or other assets to a donor-advised fund at a public charity, you are generally eligible to take an immediate tax deduction. Then those funds can be invested for tax-free growth and you can recommend grants to virtually any IRS-qualified public charity. DAF's funded with cash receive a tax deduction, while DAF's funded with non-cash appreciated assets can avoid capital gains tax and remove the asset from their estate.

You don't have to experience a "life event" to give an appreciated non-cash asset, but anticipated life events can provide good stewards with tax smart giving strategies that are uniquely advantageous!

THREE CASE STUDIES *(Like "food and wine pairing")*

Let's consider some case studies on how life events can instigate planned gifts.

CASE STUDY #1: Sale of a Business Interest

The Problem: A family is selling their business and facing massive taxes. They've built the business from the ground up and are eager to find a way to give to their church instead of the government.

The Questions: How much will they have to pay in taxes? Is there a way to sell the business more efficiently? Can they benefit from a charitable strategy? What are their options?

The Proposed Solution: For years, the family business grew and its appreciation in value was not taxed. If the family sells the business now, all growth above its tax basis will result in significant capital gains taxes at the federal and state level. If a portion of the business is given to their church or other charity, then capital gains tax can be avoided and not merely deferred. In addition, the family can receive an income tax deduction for the gift. So what avenue is the best? If stock in the business is placed in a private foundation, the owner's deduction would be limited to their tax basis in the gifted shares. Furthermore, the foundation would face 5% annual payout requirements and would have to avoid the rules regarding their prohibited transactions.

TAX SMART GIVING TOOLS

However, if the family transfers stock to their church, their deduction would be equal to the fair market value of the gifted shares. If given to a donor advised fund (DAF) as a “conduit charity” experienced with non-cash gifts, the donor can fund multiple not for profit charities in the future, can transfer tax dollars to charity, and through a DAF will have the flexibility to fund small organizations that would not be able to accept a business interest, or accept commercial real estate due to the complexity of non-cash gifts.

CASE STUDY #2: Preparing for Retirement

The Problem: A 70 year old husband has accumulated \$2 million in an IRA after working for 50 years. He has no other significant assets other than a home, which is mortgage free. His beautiful wife is 10 years his junior and he is worried if he leaves the IRA to her so she can do a spousal rollover, some other “dude” will get his hands on the IRA monies that were intended to provide a lifetime flow of income to her.

The Questions: How can our giver safeguard his IRA monies after his death to preserve them for the benefit of his wife? Can he use a marital trust? A family credit shelter trust? How can he sidestep the SECURE ACT, which requires a ten year payout?

The Proposed Solution: A Testamentary CRUT is the solution! With the wife as the primary beneficiary, our giver can secure the assets for the benefit of his wife for her life. In short, he can avoid a payout over ten years, achieve creditor protection, and support his wife. The remainder after his wife’s death would be gifted to his church.

CASE STUDY #3: Selling the Family Vacation Home

The Problem: A family has a vacation home that has appreciated substantially over the years. They’ve paid off the mortgage, because they were renting the property out when not using it and the income and depreciation have been very beneficial from a cash flow standpoint. While they still use the vacation home from time to time, it’s getting to be a lot to maintain. In addition, the husband is preparing to retire and is facing huge income taxes because of stock options that will vest.

TAX SMART GIVING TOOLS

The Questions: If the family sells, they will lose about 40% of its value in taxes. It's almost not worth the taxes to sell the property. And since they are getting older they no longer want the burden of renting and maintaining the property. What can they do?

The Proposed Solution: The family can contribute the home to a Pooled Income Fund (PIF), paying an income to the husband and wife for life and leaving the remainder to the Church. Given an assumed rate of return of 2.2%, the charitable income tax deduction will be substantial, perhaps 3 times that of a CRUT. When the PIF sells the home, neither the donors nor the PIF will be taxed on the capital gains. Further, the PIF has been structured to provide a payment to the couple of not only dividends and interest, but also realized post-gift long term capital gains. The investment advisor to the family feels he can produce an 8% total return for the life of the husband and wife.

GETTING STARTED

STEP 1

Determine how much money you need to maintain your lifestyle, cover any planned extraordinary expenses (such as travel, education, weddings, home repairs), and have reasonable reserves for unanticipated events:

\$ _____

GETTING STARTED

The answer to this question will unintentionally cause us to deal with two other questions:

- Am I Content? Do I have enough? Am I free from the need to compete? Am I building bigger barns, like in Jesus' parable (Luke 12:16-21)? 21st Century barn builders are those who prioritize the growth of their wealth to grow without any plan to deploy those resources for the benefit of eternally significant causes. In the words of Bill Buford, "they have mastered success, but have not transitioned their success into significance."
- Am I Secure? Insecurity can be fueled by fear of scarcity. Carol Dweck has a wonderful book, titled, "Mindset," where she describes those who have a fixed mindset versus those who have a growth mindset. The fixed mindset is characterized by scarcity, while the growth mindset is characterized by abundance.

Our contentment and security concerns both find their resolution in Christ. In him we find our true value and in him we find our ultimate security and assurance. Our relationship with Christ begins with an act of faith. But each day since we have been challenged to "walk by faith, and not by sight" (2 Corinthians 5:7)

List 2-3 Things That Are Causing You Fear or Insecurity Regarding Your Financial Future:

1. _____
2. _____
3. _____

GETTING STARTED

STEP 2

What assets do you steward that have a low cost basis, or potentially have a substantial tax liability associated with it if you were to sell it? For example, appreciated stock, an income property or a second home. What assets do you have that could create additional monthly income if you redeployed it without paying income taxes or capital gains taxes?

1. _____
2. _____
3. _____

Charitable planning is most popular when:

- Asset classes like stocks, real estate, etc. are up
- Income and estate tax rates are high and expected to go higher

Yes No

- | | | |
|-----------------------|-----------------------|---|
| <input type="radio"/> | <input type="radio"/> | Are you stewarding highly appreciated assets? |
| <input type="radio"/> | <input type="radio"/> | Do you pay more in income tax than you would like? |
| <input type="radio"/> | <input type="radio"/> | Are you aware of the tax burden your heirs will have given your current estate structure? |

If you answered "Yes" to any one or more questions then you should consider a follow-up conversation with a MortarStone generosity strategist.

GETTING STARTED

STEP 3

Research shows that givers would prefer to personally direct their gifts rather than having their gifts directed for them. Gift planning allows for this. **Voluntary philanthropy** is when you give your money to causes that you care about, whereas **involuntary philanthropy** is when your money is taken through taxes to support causes that the government cares about.

List three causes or entities that you voluntarily enjoy funding:

1. _____

2. _____

3. _____

Our government taxes you when you make it (income tax), when you buy it (sales tax), when you sell it (capital gains tax), and when you die (estate tax). The government is our ever present co-worker, partner and heir.

“Anyone may arrange his affairs so that his taxes shall be as low as possible; he is not bound to choose that pattern which best pays the treasury. There is not even a patriotic duty to increase one’s taxes. Over and over again the courts have said that there is nothing sinister in arranging affairs as to keep taxes as low as possible. Everyone does it, rich and poor alike, and all do right, for nobody owes any public duty to pay more than the law demands.”
– U.S. Appeals Court Justice Learned Hand

“Give to Caesar what belongs to Caesar, and to God what belongs to God.”
– Jesus Christ (Mark 12:17)

GETTING STARTED

Gift planning is both simple and complex.

It is simple in that it can only do two things; trade an asset for income and/or a tax deduction. It is complex in that depending on your situation and what you want to achieve will require an analysis of what you have and what you are wanting to accomplish (e.g. reduce income, capital gain and/or estate taxes, increase passive income, etc.).

To address the 'what you have' is straightforward. Most of us will own a house, have retirement assets as well as various cash and investments. Some of us will have a more complex estate such as stock ownership in a privately held business. The type of asset and its cost basis will then start to shape the conversation.

To start the process you need to answer three questions; when to give, what to give, and how to give.

Yes No

- ☐ ☐ Do you need to reduce your tax liability now?
- ☐ ☐ What asset(s) do you have that can provide a source of income?
- ☐ ☐ What giving strategy (testamentary, split interest or outright) makes sense for your personal goals?

How MortarStone Helps...

MortarStone helps you make the financial decisions that fulfill your God-sized calling and vision. We walk with you through the process of determining your current and future financial needs and how generosity can play a role in your legacy today.

Let's schedule a time to discuss your plans, scan to select your meeting time and day.





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