April 2006

Post-Tax Season Can Spur Strategic Approach to Giving

Many people filing their tax returns this year may regret that they did not do more to reduce Uncle Sam's bite in 2005. While it's too late to affect last year's bill, clients might be especially receptive right now to discussing a strategic approach to charitable planning that will minimize their tax liability and result in bigger gifts to their favorite charities during the year ahead.

Alerting clients to financial benefits of giving
Understanding the rules associated with giving can lead to strategies that result in greater tax savings for donors and more support for charity.

- For donations to a public charity, donors may be eligible for an immediate income tax deduction for up to 50% of adjusted gross income (AGI) for cash contributions and up to 30% of AGI for donations of appreciated securities.
- Any deduction that can't be taken in the year of the donation – for instance, if the donor's contribution exceeds the limit on charitable deductions – can be carried forward up to five years.
- By contributing to charity long-term appreciated assets, such as stocks with a low cost-basis, clients can potentially eliminate capital gains taxes and make a larger gift than if they sold the assets, paid the capital gains tax and donated the after-tax proceeds to charity.

Illustration
A married couple with an adjusted gross income (AGI) of $350,000 has $50,000 of long-term appreciated securities with a cost basis of $10,000. The following chart shows why contributing the stocks makes better tax sense than selling them and contributing the cash.

	Sell securities and donate proceeds to charity	**Contribute securities directly to charity**
Capital gains tax (15% for long-term appreciated securities)	$6,000	$0
Charitable contribution	$44,000 (after capital gains tax)	$50,000
Charitable deduction*	$40,010	$46,010
Total federal tax savings (35% of deduction minus capital gains tax, where applicable)*	$8,003.50	$16,103.50

By contributing the securities, rather than giving cash, this couple can reduce their taxes by an extra $8,100, and the charity receives $6,000 more.

** These taxpayers are in the 35% tax bracket. In this calculation the deduction has been reduced by 2% of the amount by which their AGI exceeds a government-set threshold, which varies each year (for 2006 it is $150,500 for singles and married taxpayers filing joint returns, and $75,250 for married people filing separately). In the illustration, this "haircut" is $3,990.*

Helping clients develop a strategic giving plan
Many wealthy people make philanthropy a priority, but they may not do it most efficiently. Advisors can guide clients who want to plan their giving more effectively in 2006 by:

- Identifying the best assets to give: those with the highest appreciation usually generate the most tax savings.
- Timing gifts to coincide with investment planning: if the client's investment plans call for the diversification of appreciated assets, donating that property instead can avoid capital gains tax.
- Anticipating events that could trigger a large tax liability, such as the sale of a business or exercise of incentive stock options, and offsetting them with donating to a charity that can provide the client with an immediate income tax deduction.
- Coordinating charitable giving with other financial goals: when clients understand how much they can give without compromising other goals, they often find they can allocate more to charity than they previously thought.

Recommend the best giving solution for your clients' goals
By interviewing clients about their most important financial and philanthropic objectives, you can help them develop a strategic giving plan that accomplishes multiple goals. Here are some recommendations you can make if the client answers "yes" to the following questions:

Question: Are you reluctant to make a sizeable gift of assets, even though you could use a large current income tax deduction, because you depend on the income from those assets?

Recommendation: A split-interest vehicle such as a charitable remainder trust, pooled income fund or charitable gift annuity which enables you to make a generous charitable gift, take an immediate partial income tax deduction and retain an income stream for yourself or your beneficiaries.

Question: Do you want to remove assets from your estate today and immediately benefit charity but would like family members to ultimately receive the assets?

Recommendation: A charitable lead trust is advantageous for those who do not have a current need for income and want to pass wealth to another generation while minimizing potential estate tax.

Question: Do you want to employ family members in your philanthropy or retain control over grantmaking and investment management?

Recommendation: A private foundation enables family members to work toward common philanthropic goals, while allowing family members to be employed by the foundation or serve as board members. A private foundation also offers the ability to control grantmaking and investment management of foundation assets to the extent possible under the Internal Revenue Code.

Question: Do you want to simplify your giving by establishing a giving solution that allows you to be eligible for an immediate tax deduction in the current tax year but then have the flexibility to make grant recommendations to charitable organizations whenever you would like?

Recommendation: A donor-advised fund can simplify giving with the most favorable tax treatment available for contributions, allowing tax-free growth of the contributed assets while enabling you to make grant recommendations on your own timetable.

Periodically review clients' giving plans

In the context of future discussions of clients' overall financial needs and tax planning, you can evaluate whether their giving vehicles, contribution amounts or charitable objectives should be adapted to reflect various life events.

Talk to clients today who might want to develop a strategic plan that would potentially increase their charitable giving *and* minimize their tax liability.

For more information, please contact a Fidelity Charitable Services® Planned Giving Consultant at **800-280-6357** or visit www.fidelitycharitableservices.com.