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Smart giving in tough times

Even in a slow economic climate, you can keep your philanthropy goals alive without compromising other important financial goals. You can do it by making some tactical changes in when, where and how you give.



It's not surprising that the amount of charitable contributions goes down when the markets do. But as much as giving may fluctuate with changes in economic conditions, the long-term trends show that it remains within a tight range—usually from 2.2% to 2.4 % of disposable personal income. Generally, total giving is about 2% of GDP, according to a June 2009 report from the GivingUSA Foundation,* says David E. Ratcliffe, Director of The Merrill Lynch Center for Philanthropy & Nonprofit Management.

Providing for your favorite charities in this economic environment might seem more difficult—even while the causes

may need your help more than ever. But maintaining your support can be as simple as making a few strategic adjustments, says Ratcliffe. “Sometimes it makes sense to change the way you give, the timing of the gifts or the assets you select.”

For instance, consider adjusting the amount of stock you donate. A major consideration in donating stock is the built-in capital gains tax liability on the appreciated stock. Donating appreciated stock can help reduce your exposure to capital gains tax. But donating a stock with little or no gain will not result in the same tax benefit for the donor. If you expect your depreciated shares to rebound, you may wish to hold on to your stock position rather than having the charity sell it at its depreciated value. What's more, if the stock is valued at below the basis that you paid for the stock, you may prefer selling it to capture the loss, which allows you to offset other gains, either immediate or carryforward. You can then donate the cash. Of course, giving cash has its disadvantages, too, in a time of tightening credit, when many investors want to maximize liquidity in their portfolios. That's why all donation decisions are by definition individual.

Two trust ideas

One way to help ensure a steady income stream for yourself in the near term while setting aside a generous gift is by making use of a charitable remainder trust (CRT). Under a CRT, you place assets in a trust and receive regular distributions that you determine when you create the trust. You may decide on the distribution amount based on a percentage of the funding value (annuity) or



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as a percentage of the annual valuation (unitrust). When the trust expires, the remaining assets go to the charities of your choosing. Because you have flexibility in deciding the payout rate (the percentage of the trust amount you receive each year), you could end up qualifying for a deduction that may be considerably greater than the interest you would get in an ordinary interest-bearing account or cash-equivalent investment, especially given the current low interest rates.

But even with these advantages, CRTs may be less beneficial in a down economy. For one thing, you may not be able to benefit from one of the CRT's primary advantages—reducing capital gains when you place appreciated stock in the trust. In addition, the tax deduction you are permitted under a CRT rises or falls according to the applicable federal rate (AFR), which is tied to prevailing Treasury interest rates. In a low-interest-rate environment, the AFR drops, generally reducing the size of tax deductions for most CRTs.

If you don't need as much income now and you're concerned about legacy planning, a charitable lead trust (CLT) may be a good alternative. With a CLT, the charity receives income for the term of the trust, with the remaining assets reverting to you or your beneficiaries when the trust terminates. In this case, the low AFR may actually work to your advantage. That's because, for tax purposes, the actuarial present value of the taxable gift your beneficiaries will receive years in the future is determined by today's AFR at the time of funding. With interest rates currently at historic lows, you may actually be able to place more assets in the trust—without triggering gift taxes—than you would during a higher-interest period, Ratcliffe says. Once in the trust, the assets can grow free of estate and gift taxes, which ultimately benefits your heirs.

The value in donor-advised funds

You can also give without encroaching on your current cash or investment portfolio by making annual charitable contributions to a donor-advised fund (DAF). This provides you with an annual income tax deduction along with the ability to recommend sporadic grants at your discretion to the charities of your choice. If you've built up funds in the DAF by either additional contributions or investment growth, or both, a troubled economy may be the perfect time to use some of them, Ratcliffe advises. "Instead of writing a \$5,000 check out of pocket, I might recommend a \$5,000 grant from a DAF. You haven't impacted personal cash flow or had to sell a security in order to do it." For some donors, a private foundation may result in the same strategic philanthropic approach. A private foundation will require greater oversight and management by the donor, even as it affords the donor more direct control and oversight of the funds and grant distributions.

You can also maintain your philanthropic commitment in difficult times by broadening the scope of possible donations beyond cash and investments. For example, gifting artwork or such collectibles as jewelry and automobiles will not diminish your income. And donating a piece of real estate might be suitable if you have no further interest in the management and upkeep of the property. You may even decide to give the remainder value of the real estate while retaining the right to live in it for the rest of your life. Remember, though, that the gifts a charity can actually use (for example, artwork a museum might hang on its wall) may be written off at their current value, but items a charity would have to

Ask your Financial Advisor about these strategies for supporting your favorite causes while keeping your personal financial goals on track:

- How should I alter my giving strategy, given the current economic situation?
- What specific approaches could help me preserve my portfolio while continuing to

sell, or for which it has no related use, can be written off only for the basis or the amount you paid when you bought them.

portfolio while continuing to give?

- What assets beyond my cash and investment portfolio might make suitable gifts?

In the end, charitable giving is subject to a number of considerations, and the strategies and assets you use should be an outgrowth of your specific situation. Access to experienced, knowledgeable personal advisors can allow you to meet your charitable objectives in the most effective and efficient way—helping to protect both your long-range financial goals and the values you consider important.

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* http://www.givingusa.org/press_releases/gusa/GivingReaches300billion.pdf

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