

Lasting Gifts

By

Craig W. Tower CFP®

'Tis the season for giving! At this time of year there are many who not only think of buying gifts for family or friends, but also remember their favorite charity. Thankfully, we live in a nation known for its generosity as the recent outpouring of aid for hurricane Katrina victims proves. But with some planning you too can benefit from your own generosity.

Harriet Smith, age 75, lost her husband Tom 10 years ago after more than 40 years of marriage. They met at State University where Tom studied engineering, later opening his own very successful consulting business. Tom and Harriet loved their time at State University and have contributed generously to alumni campaigns over the years. They had no children.

At Tom's death, he and Harriet owned a substantial portfolio of stock that had been acquired over many years with a very low average cost. Even though the portfolio's value was \$1.5 million, a large portion was concentrated in just a few companies. Harriet knows this is risky, but she would incur large capital gains taxes if she sold and diversified her investments. Harriet is also very concerned about her income because some of the holdings pay little or no dividends and their growth prospects are minimal.

Recently, Harriet met with a University Foundation representative who discussed a way that Harriet could save on taxes, increase her income and help fund a program at State University all at the same time. The program is called a Charitable Remainder Unitrust (CRUT) and works in the following way:

Harriet donates some of her stock to the CRUT and receives a tax deduction for her donation based upon several factors such as the investments' value, her age and future income she will receive from the assets she donated. The investments donated to the CRUT are sold by its Trustee and replaced with other choices that may have brighter growth prospects and are designed to pay income. Since Harriet has already donated her stock, she does not have to pay capital gains taxes on the profit from the investments' sale. The CRUT pays Harriet a 6% annual income as long as she lives based upon the value of the investments at the end of each year. If the value rises, it means a larger amount of income the next year; if the value falls, Harriet's income is lower.

Upon Harriet's death, the trustee of the CRUT has been directed to give the remaining portfolio value to the State University Foundation (a designated charity) to help fund an academic program Harriet knows her husband would have wanted to support had he lived longer.

Harriet should consider that there are costs associated with setting-up the CRUT and of course, she loses control over the investments. If she was to choose a Charitable Remainder Annuity Trust (CRAT) it would pay a fixed dollar amount per year instead of a fixed percentage.

There are many different ways of giving to charity that offer tax benefits and an income stream for the donor. You should always consult your financial advisors before making any decision.

Craig W. Tower CFP® is a Certified Financial Planner with Mueller Financial Services, Inc. with three office locations: Elgin, St. Charles and Oakbrook Terrace. He is a registered representative with 1st Global Capital Corp. Securities offered through 1st Global Capital Corp., Member NASD/SIPC. The views expressed are solely those of the author and may not be those of 1st Global Capital Corp. This is not an offer to buy or sell any security. The preceding information is of a general nature and should not be construed as financial, legal, or tax advice. Please consult an appropriate professional about your specific situation.