

# WAYS TO CONTRIBUTE TO SAN FRANCISCO BEAUTIFUL

There are numerous ways to contribute to the important mission of San Francisco Beautiful. David Lawrence of Mosaic Financial Partners, Inc., a financial planning firm based in San Francisco, provides some insights on how to give to our cause.

## WAYS TO CONTRIBUTE

### Annual Membership

We encourage you to join San Francisco Beautiful. Dues help cover our operating expenses and help keep the mission of SFB alive.

### Annual Beautification Awards Dinner

Our Annual Beautification Awards Dinner, usually held in October, honors our awardees, enables our benefactors to learn how their contributions benefit the city and helps us cover our overhead.

### Planned Giving

Planned giving helps individuals make donations that are integrated with their personal financial planning and estate planning goals, while allowing them to support charities of their choosing, such as San Francisco Beautiful. If structured properly, planned giving:

- \* Increases current income for the donor or his or her beneficiaries
- \* Reduces the donor's income tax
- \* Allows donor to avoid capital gains tax
- \* Permits the passing of assets to family at a reduced tax cost
- \* Facilitates significant donations to charity

The following are brief descriptions of the planned giving options available.

## PLANNED GIVING OPTIONS

**Appreciated assets:** The donation of appreciated assets lets you avoid capital gains taxes while making sizable contributions to a charity. Any qualified charity, including San Francisco Beautiful, can accept an appreciated asset and then liquidate it without having to recognize capital gains. You get to deduct the full current market value of the gift and also have the satisfaction of supporting your selected cause. While stocks are the typical asset to be donated, it is also possible to give highly appreciated real estate, certain kinds of collectibles, art, antiques, and such.

*Example: Assume you bought shares for \$30,000 five years ago that are now worth \$100,000 and you are planning on making a gift to charity. To make this donation you could do one of two things: (i) sell the shares and then donate the*

*net proceeds or (ii) transfer the shares outright to the charity. If you were to sell the shares and then donate the proceeds you would have to pay approximately \$14,700 in taxes on the capital gain (assuming combined federal and California state taxes of 21%) and you would only be able to gift (and take a deduction for) a net amount of \$85,300. If you simply gifted the appreciated shares you would be able to make a donation of the full \$100,000 (and receive a full itemized deduction \$100,000). No capital gains taxes would be due.*

**Bequests:** These are generally donations made upon your death and are established in a Will either as a fixed dollar amount or as a percentage of the estate. A qualified charitable organization can also be a direct beneficiary of life insurance proceeds, residual pension benefits, individual retirement accounts (e.g., IRA, 401(k), etc.) or any other testamentary gift arrangements. Specific wording needs to be incorporated into your Will and should be drafted in conjunction with your attorney and the desired charitable organization. The bequest will be considered a charitable donation and reduce your taxable estate by the amount of the gift.

**Memorial Endowment Funds:** This is a wonderful way to contribute money in the name of an individual, family or cause and ensuring that their legacy is not forgotten. A gift can be made to San Francisco Beautiful in honor of an important person in your life or to establish a family tradition of donating to charity. Earnings from the fund can be used to support the mission of SFB through either a specific or general program. Each contribution to your endowment is tax deductible.

**Charitable Gift Annuities:** A charitable gift annuity is a contract that allows you to make a gift to a qualified charity using cash, appreciated securities or other assets and will guarantee fixed payments to you and/or loved ones for life or a set term of years. Payouts are based on age and are typically attractive to older donors (the older one is, the larger a percentage of the donation that can be annuitized). A percentage of your payout is treated as a tax-free return of principal and you also receive a charitable income tax deduction for the year the gift was made. You are also able to take a deduction for the difference between the assets you transfer and the present value of the annuity payments you may receive over your life time. Payments are guaranteed under state insurance laws and the promise to pay an annuity is a general obligation of the charity and therefore backed by all of its assets.

*Example: Assume at age 80 you would like to contribute a large sum to a charity but are afraid you might need income from these assets in future years. You arrange for a charitable gift annuity to be established and make a gift of \$50,000. Under rules set by state governments, you would receive annual income of \$4,000 or 8% of the total value of the donation for as long as you live (if you were 85 years old, you would receive an annuity based on an 8.5% payout rate). In*

*addition, you will receive a charitable income tax deduction for a portion of the amount transferred.*

**Charitable Remainder Trusts:** There are two types of charitable remainder trusts: charitable remainder annuity trust and charitable remainder unitrust. With both trusts you transfer cash, securities or property to an irrevocable trust and the trust pays you (or your designated beneficiaries) a payout based on a percentage of the trust's assets. An annuity trust pays out a fixed income for your lifetime or a fixed number of years; a charitable remainder unitrust pays a variable income for your lifetime or a fixed number of years. You are entitled to a significant current income tax deduction, generally equal to the value of the property you contribute less the value of the unitrust or annuity payouts to be made to you. When the unitrust or annuity interest ends, the trust terminates and the remaining principal value becomes available to the charity. Because the trust would be considered irrevocable, its assets would not be considered part of your estate upon death.

Charitable remainder unitrusts are typically best as a hedge against inflation. If you foresee appreciation of the trusts assets, then the Unitrust is the preferred option. The valuation of the trust assets and therefore, the amount of income for distribution will vary year by year but over time a well-managed and diversified portfolio offers better, longer term protection against inflation than fixed annuity payments. A further advantage is that you can add to a unitrust and have an increased payout whereas you cannot increase the payout with an annuity trust.

Highly appreciated assets (i.e. Assets that if sold you would have to pay a sizable capital gains tax on) that are generating small amounts of current income are a great way to fund a charitable remainder trust. Once the asset has transferred to the trust, the assets can be sold without tax implications and the resulting cash re-invested so that a higher level of income can be generated.

*Example: Assume you own \$100,000 in stock with an original cost of \$30,000 and an annual yield of less than 1% (i.e., it provides \$1,000 income to you per year). If you were to set up a unitrust and could transfer the shares, the trust could pay out up to 7% of its assets or \$7,000 per year. If you were to sell the shares outright, you would have to pay capital gains tax of \$14,700 (assuming the shares were held for more than one year and combined federal and state tax rates). You would also receive a sizable tax deduction for the year the trust was funded and there would be no estate taxes due on the remainder of the trust assets upon your death.*

**Charitable Lead Trusts:** There are two types of charitable lead trusts: charitable lead unitrust and a charitable lead annuity. They are essentially the opposite of charitable remainder trusts: a lead unitrust enables you to give a variable annual amount to a charity for a fixed term of years or the life of one or more individuals; a charitable lead annuity trust enables you to give a fixed annual amount to a

charity for either a fixed number of years or the life of one or more individuals. Upon the conclusion of either type of lead trust, the trust terminates and distributes its remaining assets as a gift to named individuals (typically one's children). You do not receive an income tax deduction the year you make the initial donation but you are able to reduce the amount of any gift taxes owed by the value of the unitrust or annuity payouts to be made to the charity. The longer the trust term, the higher its payout rate and the greater the gift tax savings. Further, future appreciation on the contributed asset is not subject to additional gift or estate taxes.

**Pooled Income Funds:** A pooled income fund is a trust, operated by a qualified charitable organization, which enables you to retain a source of income for life, claim a current income tax deduction and make a future gift to charity. Because pooled income funds combine the contributions of many different donors into a single investment fund, they are ideal for smaller contributions.

**Retirement Assets:** The term retirement assets refers to savings you accumulate over the years, typically through regular payroll contributions into employer sponsored programs (e.g., 401(k), 403(b), 457 plans) or through other kinds of plans, such as annuities, IRAs, Simple IRAs and SEP plans. Qualified charitable organizations can be listed as a beneficiary of these plans. When you begin to access these accounts, the distributions are taxed as ordinary income and you are required to take certain minimum distributions starting at age 70½. Upon your death, your heirs will also be required to take minimum distributions. If you do not require the income from these assets, then you, and possibly your heirs, are being forced to pay taxes, often at a high marginal rates. If you should die before tapping into any of these assets, then the residual amount will be considered a donation and your estate receives a deduction for the full amount of the contribution. Besides the benefit of providing for a charity and receiving a potentially sizable charitable tax deduction, you will be reducing the level of income tax owed by your heirs. This option should be considered if you do not believe your heirs need the retirement assets and/or if you want to reduce the taxable impact that required minimum distributions sometimes force on beneficiaries.

**Retained Life Estate:** A retained life estate allows you enjoy the use of an existing asset (typically a house) while you are alive and being able to enjoy a sizable income tax deduction in the current year. You deed your home to the qualified charity now but retain the right to live in it until your death. The amount of the deduction depends on the value of the property and your age (and the age of any other person given life use, such as a spouse). In addition, you retain the right to rent the property or make improvements to it; you have the responsibility to maintain the property and to pay all necessary insurance and property taxes. Any personal residence qualifies for the deduction: a farm, condominium and even stock in a cooperative apartment. The gift is irrevocable and, at your death, or at the death of a survivor, the property is transferred outright to the charity. If

the property has experienced a substantial gain in value no capital gains tax will be payable.

Each one of these forms of planned giving has a degree of complexity to it, from either a financial or estate planning point of view, that cannot be covered in this short overview. It is essential that donors consult with their tax, legal and/or financial advisors prior to making a planned gift.



*About the author: David Lawrence is a Certified Financial Planner with Mosaic Financial Partners. The firm is a leading provider of fee-only financial planning and investment management services to corporate executives, professionals and business owners in the San Francisco Bay Area.*

Planned Giving Guidelines – Who can benefit from what estate planning technique	
Appreciated Securities	Appropriate for <b>those who have highly appreciated securities</b> . Will allow for maximum charitable deduction while avoiding capital gains tax having to be paid.
Bequests	Appropriate for those who wish to honor a specific individual, family or cause.  Also can be appropriate for those with <b>valuable illiquid assets</b> : art, antiques, rare books, etc.. These items can be difficult to sell and often force executors to sell at distressed prices to raise cash for the payment of taxes. Conveying an illiquid asset to a charity can eliminate this problem while maximizing deductions.
Memorial Endowment	Appropriate for those who wish to honor a specific individual, family or cause.
Charitable Gift	Better for <b>older donors</b> who wish to make a substantial gift to charity now but desire to have a source of residual income. Can ensure the security of steady cash flow through to death. Does not have concerns over inflation eroding buying power.
Charitable Remainder	Appropriate for an <b>individual near retirement with highly appreciated assets not earning</b>

	<p><b>much current income.</b> The shares can be donated and once transferred to a CRT can be sold for higher yielding investments. The donor must be able to stand some degree of volatility in investment values and therefore with the ultimate amount of annual payout.</p> <p>Also appropriate for <b>retired couples between age 60 and 75.</b> If you have a healthy life expectancy, the unitrust can provide a hedge against inflation and a source of income.</p> <p>Can also be appropriate for <b>someone supporting an older parent.</b> You may be seeking a method to increase a parent's income and also make a philanthropic contribution.</p>
Charitable Remainder	Individuals over the age of 75 who have a concern over stability of income and limited concerns over the impact of inflation.
Charitable Lead <i>Annuity</i>	Suitable for a donor who wishes to <b>make annual donations</b> to a charitable organization and believes

	<p>that the funding of <b>assets will grow substantially in value</b> over the term of the trust. Gift tax is paid when the trust is funded, not when the trust is paid out to the final beneficiary.</p>
<p>Pooled Income Fund</p>	<p>Appropriate for <b>individuals who have highly appreciated securities that have a low current yield</b>. Once transferred, the appreciated security can be sold without taxable impact to the donor and then the proceeds can be used to buy higher income producing investments. These funds are also <b>good for those whose</b></p>

	<b>initial donations are relatively small in size.</b>
Retained Life Estate	Appropriate for those who wish to make a charitable donation and live in a <b>highly appreciated residence</b> . The residence is removed from the donor's estate while providing a current charitable deduction based on the value of the remainder interest.