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Newsletter begins on next page.

A no-nonsense newsletter for estate planners and financial advisors from The Dayton Foundation

Several Reasons to Prefund Your Charitable Checking AccountSM and Increase the Benefit of Giving

By Lynn Burns, CPA, JD, CFP, Owner of Burns Tax Consulting, LLC

Many people routinely give every year to their favorite charitable causes. If you are one of them, you should know that there are ways you can increase your tax benefit from making these gifts.

Anticipation of an Unusual Event in a Given Tax Year

A number of circumstances can trigger a tax consequence that can be mitigated by a well-timed charitable gift.

Examples of such events might be the exercise of a nonqualified stock option; a buyout (such as occurred for many General Motors and Delphi employees); or the receipt of an extraordinarily large bonus. Any of these circumstances could put you in a higher bracket in the tax year in which the event occurred than you'll be in during the following year.

If you routinely give to charity or you have a substantial upcoming charitable gift you'll be making, giving a large donation to your Charitable Checking AccountSM (CCA) at The Dayton Foundation

in the year when your tax bracket is higher, can be a very good solution to your tax problem. You then have the ability to make distributions from your CCA to your favorite charities in any future year you choose.

Here is an example of how this would work.

Assume Husband and Wife will file a joint tax return in 2006 and are in the 33% marginal tax bracket. They expect their marginal tax bracket to be 25% in 2007, because they both intend to retire early in the year. By prefunding \$20,000 of their planned charitable contributions for 2007 or subsequent years with a deposit to their CCA in 2006, they can receive a \$1,600 benefit (\$20,000 times the 8% difference in marginal tax rates).

An Event Makes You Subject to the Alternative Minimum Tax (AMT)

Any of a number of possible events can trigger the Alternative Minimum Tax. Exercising an incentive stock option is one example. Another is experiencing a large capital gain in



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a given tax year. You can diminish the tax impact of such circumstances with a charitable gift made in the year when you would experience AMT. By placing the dollars into your CCA, you can reduce your taxes and increase the use of your triggering event for charitable purposes. Here's an example of how this would work.

Assume an individual, let's call her Alice, is subject to Alternative Minimum Tax in 2006 because of the exercise of incentive stock options or a significant long-term capital gain on the sale of investment property. By prefunding her contributions for subsequent tax years with a \$40,000 contribution to her CCA, Alice may

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reduce her 2006 tax liability significantly. Charitable contributions are deductible for both the regular and the AMT calculation. In some cases, the savings could be as high as \$14,000 for the current year. Note that Alice also could have saved tax dollars by contributing a portion of her investment property to her CCA, rather than selling it and taking the profit directly.

A Year of Limited Itemized Deductions

It's not uncommon to find yourself in a situation where you can't itemize anymore – or you might be barely at the threshold for deducting mortgage interest or other deductibles. In 2006 the standard deduction for a married couple filing jointly is \$10,300. For a single individual, it's \$7,550.

If you are in this situation, I recommend you consider itemizing every other year. You can bunch your itemized deductions in one tax year and prefund your CCA in that year. You can enhance the tax benefit by gifting appreciated stock or other appreciated property directly to The Dayton Foundation for your CCA and receive an even greater tax benefit. You also can bunch your deductions in the year when you're in a higher tax bracket and reap the benefits.

Let me give you an example.

More mature taxpayers who have paid off the mortgage on their home and retired may have limited itemized deductions. If their itemized deductions, other than charitable contributions, total \$5,300 each year and they contribute \$10,000 to their favorite charity each year, \$5,000 of their charitable contributions produce no tax benefit. If they bunched their charitable contributions by prefunding their 2007 contributions, they would save \$1,400, assuming they are in the 28% marginal tax bracket (\$5,000, which would produce no tax benefit in 2007, times 28%).

Other Benefits of CCAs to Your Clients

I like to recommend The Dayton Foundation's CCA Service to my clients for a number of reasons. First, it's so easy to use. You can do everything online, if you wish. You can pull up your account balance and the history of your past grants and contributions. You even can make your grant requests online. The Dayton Foundation does all the work for you – transferring the funds you request to your favorite charities (you don't have to worry about stamps or envelopes) after first conducting the due diligence to determine the charities are IRS-approved; giving you an accounting of those funds; selling for you non-cash contributions and placing the proceeds into your CCA (appreciated stock, etc.). It's all so easy.

Second is the flexibility. You can use a variety of different assets to fund your CCA – cash, stocks,

mutual funds, real property. You can fund your CCA in one tax year, take the deduction then, but spend out your contribution to your charities in the following year or in any subsequent year. Also, you can request as many grants as you wish from your CCA and in whatever dollar amounts you choose.

Third is the record keeping. In addition to being able to go online anytime and obtain your fund balance, you also can choose to receive both paper quarterly statements of your CCA and an end-of-year statement – most helpful to both you and your tax accountant. Furthermore, you don't need individual receipts from every charity receiving a grant of \$250 or more. The acknowledgments you receive from The Dayton Foundation as you fund your CCA are the only ones you need for tax purposes.

Because you pay no direct fees to use your CCA and given the level and quality of service provided by The Dayton Foundation, this is a recommendation I am happy to make to my clients. I use the Charitable Checking Account Service for my own personal giving as well. 🌟

Note: Solutions differ from case to case. The above does not constitute professional financial or tax advice.

Belinda A. (Lynn) Burns, CPA, JD, CFP, owns Burns Tax Consulting, LLC. She has more than 25 years of experience advising individuals and closely-held businesses on tax matters.

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