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# Futures

Fall 2015

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

## Using Alternative Assets in Estate Planning to Benefit Charity

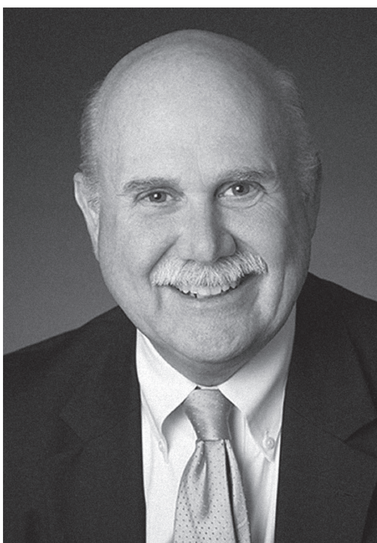
**By Herbert L. Lemaster, CPA, Shareholder-in-Charge, Clark Schaefer Hackett**

Well, it's finally happened. In a blink of an eye, the friends I graduated with from the University of Dayton, starting our careers in the 1970s and 1980s, now are retiring. Not only are they retiring (from professions only; they are working just as hard for charitable groups in Dayton), but they also are discussing their financial plans for the future and how they can best achieve their wishes.

*"Many individuals in the Dayton area want to leverage their years of hard work to benefit charities that have missions focused on making life better for others."*
– Herbert L. Lemaster

Their financial plans are taking on three perspectives. First, they have excellent financial advisors who take care of their investment income-earning alternatives. Second, they carefully have worked with trust counsel to identify their needs and the needs of their families. And third, they want to make certain their lifetime dreams of helping others are fulfilled.

Like many personal items, financial portfolios are obtained through a lifetime of earning and investing. In this manner, the portfolios are composed of more than investment and savings accounts. The financial portfolio also is composed of alternative assets, such as real estate, insurance policies, IRAs and other financial accounts that transfer on death of the owner.


Herbert L. Lemaster

### Alternative Asset Examples

Non-business real estate (i.e., family home) is more of a consideration in estate planning today than in prior years. Often, surviving family members do not live locally, nor do they want an ownership interest due to the difficulty of management. Instead, bequeathing the home to a charity removes the estate's difficulty of bringing the home to market and holding the estate open until the home is liquidated. Since the estate step-up in value occurs at the date of the donor's death, the per-home sale exclusion from capital gains is a moot issue. For business real estate, where depreciation recapture can exist during an individual's lifetime, the step-up in value is significant.

Due to the transferability of insurance policies and the reduced cost of policies as compared to prior years, the use of insurance policies in estate planning to benefit charity also has grown significantly. For younger individuals, the opportunity to purchase life insurance at lower rates directly in the name of a charity allows the donor to skip the estate entirely while providing a fixed and determinable benefit to the charity. This also removes the potential for future estate issues should the donor retain ownership and the estate were to be challenged by other beneficiaries.

IRA accounts are becoming more popular – and more complex – with the addition of the Roth IRA in 1998. By adopting the estate as the beneficiary of an IRA, the owner subjects the IRA proceeds to an estate tax, as well as to future income tax paid by the beneficiaries of the IRA proceeds. The most important consideration with respect to IRAs is to plan appropriately to avoid the acceleration of the income tax through the creation of marital trusts. Due to the changes in estate tax exemptions, many former marital trusts still exist. It's important that owners of IRAs, who have included the estate or trusts as beneficiaries, revisit the potential tax cost vs. the original perceived benefits.

One of the approaches in reducing estate taxes as well as income taxes, especially with no surviving spouse, is to take advantage of the current rules with respect to capital gain properties. From a tax-planning perspective, each owner should review the transfer tax rates (gift tax liability during lifetime) and the current long-term capital gain rate. The American Taxpayer Relief Act of 2012 affected these calculations by adjusting two major tax rate calculations:

- For taxpayers at the top income levels, the capital gains tax rate was increased to 20 percent (up from 15 percent) and
- For taxpayers at the top estate and gift levels, the transfer tax rate was increased to 40 percent (up from 35 percent).

Both of these adjustments became effective January 1, 2013.

The primary advantage of a Transfer on Death (TOD) designation for an asset is the avoidance of probate. By reducing the related

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## Using Alternative Assets

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fees and expenses with the transfer of such assets, the net estate benefits in the distribution to other beneficiaries. Also, cash or other assets that do not possess appreciation can be segregated and steered towards charitable organizations since the lack of appreciation provides no tax benefit to the estate. However, a TOD can provide a significant opportunity for an estate with a charitable intent.

A significant or planned transfer to charity prior to an owner's death has its own set of issues. First, the charitable deduction may be severely limited due to the charitable limitation based on an owner's adjusted gross income. Second, the carryover from the charitable transfer may evaporate if the owner passes away prior to additional income earned and taxable years occur. By retaining a TOD attribution, the estate gains the full deduction against the value of the estate while retaining the flexibility of the designation during the owner's lifetime.

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*– Herbert L. Lemaster*

### In Conclusion

Many individuals in the Dayton area want to leverage their years of hard work to benefit charities that have missions focused on making life better for others. Proper planning of the various financial assets that accumulate over time can reap additional benefits if done correctly. The Dayton Foundation and its advisors are essential in making these wishes come true. I encourage you to contact Joe Baldasare, Kevin McDonald or Whitney Briggs in the Foundation's Development department at (937) 222-0410 for more information. ❧

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

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## End-of-Year Giving: Now's the Time to Open a Charitable Checking Account℠

While many clients show their generosity by donating to charity throughout the year, the majority of individuals are more inclined to give during the holidays. As a trusted advisor, you can help them simplify their giving and turn their generosity into tax savings by encouraging them to open a Charitable Checking Account℠ (CCA) through The Dayton Foundation.

With a CCA, your clients may deposit cash or donate appreciated assets, such as stocks, into their account when their budget allows, then distribute grants to charity locally or nationwide at any time. The Dayton Foundation takes care of the details, including issuing quarterly and year-end statements. Plus, it's free, and no minimum balance or deposit is required. Clients even can give anonymously, if they so choose.

Accounts can be opened online at www.daytonfoundation.org/ccaintro.html or by contacting Joe Baldasare, Kevin McDonald or Whitney Briggs in the Foundation's Development office at (937) 222-0410.

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