Case Strategy: *Donor-Advised Fund Avoids Capital Gain and Endows Charitable Giving*

TWAIN

For the past several years, Jack and Dee Twain have made annual gifts totaling $5,000 to their church, the university where they met and the local symphony. The Twains enjoy a comfortable lifestyle on a combined income of $175,000. Their liquid investments are valued at $2,500,000 and their two children recently finished college. Within their portfolio, they own approximately $100,000 of XYZ stock that they bought when Dee received a $40,000 inheritance several years ago. The Twains are ready to sell the XYZ stock but don't want to pay $11,550 in capital gain taxes.

Dave Trapp, the Twains' financial advisor, recommends creating a donor-advised fund with the Renaissance Charitable Foundation to endow their annual giving, thus freeing up for other purposes the $5,000 they normally give from current income. Dave explains that by transferring the XYZ stock to a donor-advised fund, they will receive an immediate $100,000 income tax deduction, which would reduce the Twains' tax burden by $33,000. After the transfer, the stock will be sold with the proceeds re-invested in mutual funds or a variable annuity designed to produce an average yield of 6%.

Dave informs the Twains that next year, they will not be writing personal checks to their church, the university and the symphony, but instead will facilitate grants from The Twain Family Foundation at the Renaissance Charitable Foundation. If the fund generates a 6% yield, their giving could be increased to $6,000. This excites the Twains particularly when they realize that the list of donors in the symphony program next year will include a gift from "The Twain Family Foundation" instead of Mr. & Mrs. Twain.

To complete the circle, Dave further recommends that the Twains purchase additional investments with a portion of the tax savings and the $5,000 the Twains previously used to make charitable gifts (giving will continue via the donor-advised fund). Dave points out that within a few years, the new investments may equal or exceed the $100,000 value of the XYZ stock. An added benefit is that the new investments will have a higher cost basis.

Jack and Dee are thrilled with the idea. Their advisor showed them how to avoid capital gain on an asset sale, endow their charitable giving and reduce their income taxes.

This is one of many examples of how a donor-advised fund can be used to help clients. Call the Renaissance Charitable Foundation, 866-803-0389, today to learn more or visit our web site at www.rcgf.org.

Jack and Dee
Tax Deduction
$100,000

Capital Gain Tax Savings
$11,550

Endowed Gifts
(In Perpetuity)
$6,000 +/-

Assumptions:

Marginal Federal and state income tax rate of 36.35%.
Marginal Federal and state capital gain tax rate of 19.25%.
Deduction may be limited. Consult a tax advisor.
For illustration purposes, the income tax burden reduction reflects Jack and Dee's Federal marginal rate of 33% since many states do not permit itemized charitable deductions.

For more details about this strategy or any other charitable trust case, please call Renaissance at 866.803.0389.

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