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## to give is to receive

*Carefully planned charitable giving can lighten your tax burden and energize your spirit.*

BY MELISSA BROWN

ILLUSTRATION BY CLAIRE CORMANY

**T**HE THOUGHT OF HOLIDAY GIVING often brings to mind images of The Salvation Army's red buckets and ringing bells. For most, it may consist of \$10 here, \$20 there, without much thought beyond what's in your pocket. But charitable giving can become a major part of your financial plan.

"I find that most people are charitably inclined, but they don't know how to give or give effectively. If they are unsure about their own financial situation, it's an afterthought, but I include it as part of the planning process," says Bryan Hancock of Timberchase Financial, his fee-only planning and investment firm.

"If people are passionate about a cause or if they can't possibly spend in their lifetime what they have," he says, "then they need to think about what's going to happen to those resources. A lot of charitable giving is done through estate planning and after someone is gone. I'm trying to help them figure out how to give to their causes while they are still here. It's much more satisfying," Hancock says.

Hancock sees most people donating cash, but investments can come into play. "If someone has appreciated security in a taxable account, he or she should be thinking about making the donation with that," he says, thereby gaining the tax deduction and avoiding the potential capital gains tax if you sold the stock.

Trey Whitt, a tax manager with Dent, Baker and Company LLP in Homewood, agrees that "charitable giving is one of the ways we help our clients bring down their tax liability." And within this realm, there are many ways to give and to receive.

Hancock calls the donor-advised fund "the trump card in charitable giving." "If you expect to make a lot of money this year and need to make the most of your charitable contributions for

tax purposes, you can give to a donor-advised fund that then invests the money on your behalf," he explains. "You get the tax and capital gains deduction, but the money you give to the fund can grow over time, or you can ask the managers to make a donation to any non-profit, anytime. This is a way to, in effect, set up a foundation without the cost, hassles, and restrictions."

Hancock uses a fund through The American Endowment Foundation and recommends Vanguard's Charitable Endowment as "the best retail donor advised fund I'm aware of."

Whitt also endeavors to make sure his clients are informed about giving. "From a tax perspective, the general rule is that individuals can give up to half their income in cash contributions per year. For non-cash contributions, like cars, there are more stringent reporting requirements," he says.

Whitt explains that giving one's car to charity, for example, requires careful documentation to satisfy the IRS. "Any non-cash donation over \$5,000 requires an appraisal, regardless of what it is." Marketable securities are exempt, because they are publicly traded and stock prices and values for them are easily found.

Another opportunity for giving is through one's Individual Retirement Account (IRA). Congress recently passed legislation allowing for distribution from an IRA directly to a charity. Higher-income taxpayers with an IRA usually take out the minimum amount required, but still get taxed on that increase in income, says Whitt. "In order to exclude the distribution from income, the taxpayer must have reached the age of 70½ at the time of the distribution, and the distribution must be made directly from the IRA to the charitable organization," he says.

Whitt also advises his clients to make sure they contribute to qualifying organizations. Generally speaking, "whenever you receive a benefit back, the contribution is probably only going to be partially deductible," he says. "You see that often with charity events where there might be a dinner or some other benefit back to you."

Thankfully, the most important benefit back to the donor cannot be reported on any IRS form. The act of giving reminds us to be grateful for all that we have. "I try to tell my clients, when looking at income tax deductions, you're spending a dollar to save, 35 cents

***"People need to figure out how to give to their causes while they are still here. It's much more satisfying."*** BRYAN HANCOCK

tax. So transactions motivated purely by tax are always losers," says Whitt. "I advise my clients to look at it from the standpoint of what's important to them. If there's a tax benefit to giving, let it only be a by-product of what your heart's telling you to do anyway," he says.

"One of the motivations for me being in this business is there's nothing about money that's about money," insists Hancock. "Everything is about what we're going to do with our lives, fulfilling our calling, following our passion. Everything financial is just a resource to do those things," he continues. "The process of charitable giving is a freeing exercise because it takes the focus off us and puts it where there are needs more important than ourselves." ◉