Charitable giving

Wealth Management

Support a worthy cause while lowering your tax bill — a win-win situation

Charitable giving is a powerful financial tool. It provides double satisfaction — by helping a worthy cause, and possibly lowering your tax bill.

Perhaps you want to support your favorite charity, create a new program to address a specific concern in your community, or capitalize on the business advantages and social connections often associated with philanthropic endeavors. Whatever your personal goals, charitable giving can help you achieve them. In fact, charitable giving strategies often provide solutions unavailable through traditional estate planning techniques.

Three valuable tax benefits

- You may receive an income tax deduction in the year you make the gift
- The federal gift tax does not apply to charitable gifts
- Charitable gifts may help reduce your potential estate tax liability by reducing your taxable estate

Potential limitations on tax benefits

The American Taxpayer Relief Act (ATRA) of 2012 reinstated limitations on itemized deductions, including the charitable deduction, for high-income taxpayers. Beginning in 2013, single taxpayers with adjusted gross income (AGI) in excess of $250,000, heads of household with AGI above $275,000 and married couples filing jointly with AGI over $300,000 began to feel the effects of these limitations. In short, itemized deductions will be reduced by 3% of the amount that their AGI exceeds these thresholds, up to a maximum of 80% of total itemized deductions.

It is possible that this new provision may reduce the tax savings associated with your charitable gifts, however in many of the cases the impact is quite small. To be sure, it is best to discuss the tax implications of major charitable gifts with your tax advisor, as it will depend greatly upon your individual tax situation.

Other benefits

Some of the most common benefits include the donor's ability to:

- Transform an illiquid asset into an important source of future income
- Restructure a non-diversified portfolio without incurring an immediate capital gain
- Help avoid current capital gains tax on the sale of a business
- Take an immediate tax deduction on a future gift

Easy charitable gifting

For an outright gift — in the form of money or property, to be income tax deductible, it must be for the charity's benefit and the charity must take possession immediately.

Charitable giving vehicles

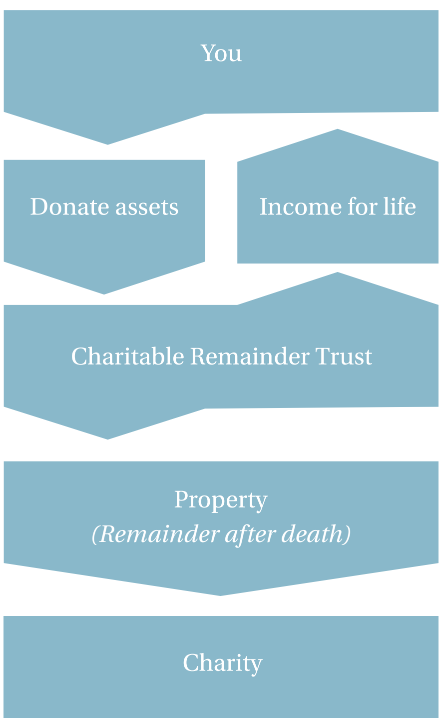
There are a number of tools and strategies, each with its own advantages and benefits, that can be used for effective philanthropy, including:

- **Charitable Trusts —** are irrevocable trusts established to receive gifts of cash or other property on behalf of a qualified charitable organization. Charitable Remainder Trust (CRT) allows the donor, and/or other family members, to receive a lifetime payment from the trust, or for a term not to exceed 20 years. Upon the death of the income beneficiaries, the trust is dissolved and the charity receives the remaining assets. These arrangements are known as split-interest trusts. Benefits of CRTs include the ability to help avoid capital gains tax on the sale of assets within the trust and a potential tax deduction when the trust is created.
- **Charitable Remainder Annuity trust —** A split interest trust that pays out a fixed amount of income every year (an annuity) based on the initial contribution to the trust to the non-charity beneficiary for the term of the trust, and the remaining assets pass to the charity at the end of the term.
- **Charitable Remainder Unitrust —** A split interest trust that pays the non-charity beneficiary a fluctuating amount each year, based on the value of the assets in the trust each year. At the end of the trust term, the remaining assets pass to the charity.

The opposite of a CRT, a Charitable Lead Trust (CLT), provides an income to charity over a specified period (either the lifetime of one or more people, or over a set number of years). At the end of the period, the trust is dissolved and the remaining assets are distributed back to the donor or other named non-charitable beneficiaries. A CLT may enable the donor to transfer property to family members at a fraction of the fair market value.

- **Private Foundations —** enable a donor to establish their own private or family charitable organization to express the charitable wishes of the family in perpetuity. There are many options regarding the structure (trust or corporation) and management of a private foundation. Control over grants from the foundation and investments within the foundation remain with the donor and the family. Because of the complexity and costs, a private foundation is usually only established for considerable assets.

How a charitable remainder trust works



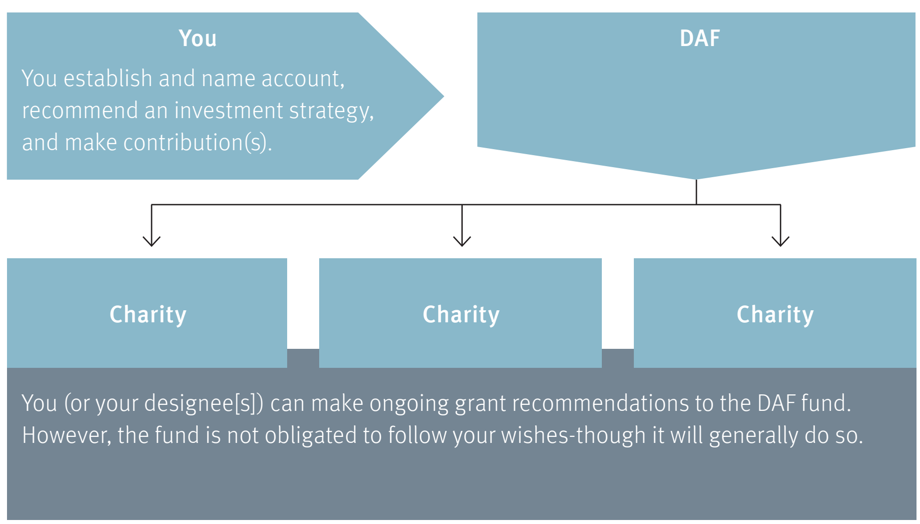
- **Life insurance —** enables a donor to make a significant lifetime gift to charity for a relatively small, tax-deductible annual contribution. Existing or new policies may be donated, subject to state law. Gifts of life insurance provide many benefits to the receiving charity, including minimal administration requirements, no delays in settlement, and the ability to access the policy cash values during the donor's lifetime.
- **Remainder interest in a residence —** arrangements enable a donor to transfer title of property to a charity, while continuing to occupy and enjoy the property for either the life of the tenants or a specified period of time.
- **Donor Advised Funds (DAF) —** may be used by clients who intend to give to charities over time and who want to maximize their current income tax deductions in the process. The benefits are similar to those of a private foundation, without all of the paperwork and start-up costs. Additional contributions can be made at any time with own additional tax deduction. Contributions are invested in a choice of investment pools offered by the trustee or larger DAFs may be invested by the donor's financial advisor.

Where do you begin?

Begin developing a charitable estate plan by deciding if charitable giving makes sense for you. Things to consider are your age, net worth, future income needs, and financial goals. Your RBC Wealth Management® financial advisor uses sophisticated tools and professional resources to develop a highly personal, integrated analysis that can help you reach your goals.

Your financial advisor has access to professional trustees and charitable entities that can assist in crafting your specific charitable giving plan and guide you through any complexities.

Contact your financial advisor today to discuss the benefits of charitable giving.



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