

## CHARITABLE OPPORTUNITIES

Americans are a generous people. Despite our own economic woes, in 2009 U.S. charitable giving was an astounding \$303.75 billion, according to the *Giving USA Foundation*. Even when the going gets tougher on us economically, Americans still open our wallets to help those in need at home and abroad.



Are you a gracious giver, perhaps even a *philanthropist*? If you are a taxpayer, then the answer is *yes*. How, you ask? During your lifetime, your wealth is subject to taxes in a variety of forms. Income taxes levied on your wages, interest and dividends, and capital gains taxes extracted on the sale of your appreciated assets may tend to make April 15<sup>th</sup> one of your least favorite days each year.

### Voluntary Taxes

Our tax system is *voluntary* in its form, but the civil and criminal penalties for noncompliance make the process *involuntary* in its substance. Thankfully for

our national defense and other essential programs of the federal government, most taxpayers voluntarily comply with the Internal Revenue Code (IRC) and pay their fair share.

Beyond the essentials of government, however, are there any programs funded by the federal government you personally consider nonessential and perhaps even wasteful? If there are, then you are an *involuntary philanthropist* by your financial support of such causes as selected by Congress and the White House.

Perhaps there are private sector charities you deem more worthy of your tax dollars? Chances are you

## INSIDE

Americans have a rich heritage of philanthropy. Unfortunately, too many taxpayers are *involuntary philanthropists* because they fail to maximize the tax incentives to become *voluntary philanthropists* in support of the charities of their own choosing.

Perhaps you have heard the old saying that “charity begins at home.” Many otherwise generous givers understandably do not want to disinherit their own family. Be sure to read our page three article for a solution to this common concern.

already support these charities. If so, then you really should know about IRC § 664 and how you may turn your involuntary philanthropy into tax-savvy *voluntary philanthropy*.

### IRC § 664

Charitable tax deductions have been part of the IRC since its inception. Why? The government’s own research determined that private sector charities deliver social services more cost-effectively than the government itself. The government, in turn, sought to encourage increased charitable

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giving to private sector charities by enacting IRC § 664 in 1969. In essence, IRC § 664 permits *split-interest gifts*, making it attractive for taxpayers to *have their cake and eat it too!*

A *Charitable Remainder Trust* (CRT) is a popular split-interest gifting technique. Through a CRT, you may increase your current income, enjoy current income tax deductions and leave a substantial financial legacy for your favorite charity(ies) upon your death (or upon the death of your spouse, if later).

Here is how it works. First, you create a CRT and contribute an asset to it. [Note: Appreciated assets (i.e., assets that would be subject to capital gains taxation were you to sell them yourself) are commonly contributed because they tend to be low income producers and have a low income tax basis.] Second, the CRT sells the asset without capital gains taxation and then reinvests the proceeds in an income-producing portfolio that grows income tax free inside the CRT. Third, you (and your spouse) receive an enhanced lifetime income plus



valuable income tax deductions for up to six years. Fourth, upon your death (or upon the death of your spouse, if later), the CRT distributes any remaining CRT assets probate-free to your selected charities and your estate receives a charitable tax deduction for the value of the assets distributed.

### Family Matters

As the saying goes, *charity begins at home*. Accordingly, many Americans want to maximize the wealth they ultimately transfer to their children and grandchildren.

While the CRT provides a lifetime income and tax benefits to the taxpayer (and spouse), it correspondingly reduces the estate eventually available to loved ones. This is obviously one of the major drawbacks to CRT planning. However, there is a tax-savvy strategy available to replace the value of the CRT assets for the benefit of loved ones. This strategy leverages the Annual Gift Exclusion, Life Insurance and the Irrevocable Life Insurance Trust.

Contact qualified legal counsel before you pursue any complex financial or legal strategy.



## Ask Yourself ...

*These Questions Regarding "Charitable Opportunities."*

- |                                                                                                                                                                                                                                                   |     |    |          |
|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|-----|----|----------|
| 1. I currently support the charities of my own choosing through tax-deductible contributions.                                                                                                                                                     | Yes | No | Not Sure |
| 2. If given the choice, I would rather engage in <i>voluntary philanthropy</i> than engage in <i>involuntary philanthropy</i> (i.e., the taxes I otherwise pay to the IRS to support government programs, some of which I may personally oppose). | Yes | No | Not Sure |
| 3. I am intrigued by the government-encouraged opportunities available under Internal Revenue Code § 664 to become a voluntary philanthropist through a Charitable Remainder Trust (CRT).                                                         | Yes | No | Not Sure |
| 4. I understand that, while a Charitable Remainder Trust ultimately benefits my selected charity(ies), my loved ones will forever lose the use and enjoyment of the assets contributed to my CRT.                                                 | Yes | No | Not Sure |
| 5. I understand that, through an Irrevocable Life Insurance Trust, I may replace for my loved ones the value of the assets contributed to my CRT on an estate-tax-free basis.                                                                     | Yes | No | Not Sure |

# THE CHARITABLE TRIFECTA

In the world of high-stakes wagering on horse races, winning the *Trifecta* is a most noteworthy achievement. To win, you must pick not only the winner of the race, but also the second and third place finishers. When it comes to gracious giving, most taxpayers would prefer to benefit their charities first, themselves second, their loved ones third ... and the IRS dead last. This *Charitable Planning Trifecta* can be achieved through a carefully coordinated financial and legal strategy that includes a *Charitable Remainder Trust* (CRT) and an *Irrevocable Life Insurance Trust* (ILIT).

## The Trifecta Challenge

The creation of a CRT helps your charity finish first, with you (and your spouse) a close second. Before the charity *inherits* the assets held in the CRT upon your death (or upon the death of your spouse, if later), you (and your spouse) enjoy a lifetime income from the CRT and valuable charitable tax deductions. However, when the charity inherits the assets held in the CRT, they are forever unavailable to your loved ones. That is where the ILIT comes in.

## The ILIT Solution

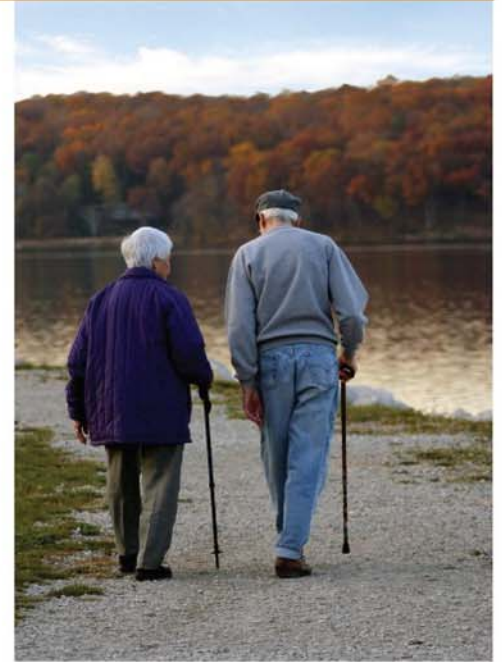
With your CRT generating income sweetened by income tax deductions, you may have a total annual income in excess of the amount necessary to maintain your lifestyle. If so, then you may want to consider acquiring Life Insurance in an ILIT to replace the value of the CRT assets ultimately passing to charity instead of to loved ones. To keep the value of the Life Insurance *death benefit* out of your estate (and that of your spouse) you must be very careful to follow the *ILIT dance steps* to ensure proper ownership of the Life Insurance from the outset.

## ILIT Dance Steps

First, you create an ILIT. While you may not serve as a Trustee (nor should your spouse), you may select the current and successor Trustees. The beneficiaries of the ILIT will be your loved ones.

Second, you (and your spouse) make gifts to the Trustee on behalf of the ILIT beneficiaries in an amount roughly equal to the insurance premiums. The Trustee then provides written notice of the completed gift to each ILIT beneficiary and that each beneficiary has a designated period of time to request distribution of their respective share of the gift. After the designated period has lapsed, the Trustee applies for the appropriate Life Insurance and pays the initial premium. [Note: This annual gifting ritual continues until your death (or the death of your spouse, if an insured and your survivor).]

Third, assuming all of the ILIT dance steps have been followed, the death benefit will be estate-tax-free when paid to the ILIT for



your loved ones. This will replace the value of the CRT assets paid to the charity.

## Conclusion

With careful planning and crisp execution, your Charitable Planning Trifecta will enrich your charity, yourself (and your spouse) and your loved ones ... disinheriting only the IRS. In the end, you will have become a voluntary philanthropist indeed.

## POCKET PROTECTORS

### Tips to help you protect your pocket!

#### Is it Time to Review Your Plan?

Proper estate planning is a *process*, not simply a one-time event. Therefore, it only makes sense to periodically review your planning goals and legal instruments. Review this list of life changes that could alter your estate-planning needs. If you notice some areas that might apply to you or your family, it may be time for an estate plan check-up.

1. Marriage, remarriage or divorce
2. Death of a spouse
3. Substantial change in estate size
4. Death or incapacity of an executor, trustee or guardian
5. Move to another state
6. Acquisition of property in another state
7. Birth or adoption of a child or grandchild
8. Serious illness of a family member
9. Change in business interest or retirement
10. Change in insurability for life insurance
11. Marriage or divorce of a beneficiary
12. Change in beneficiary attitudes
13. Financial irresponsibility of a child
14. Change in tax law
15. More than two years since review of plan with attorney

**E**verything  
in the world may  
be endured  
except continued  
prosperity.”

— Johann  
Wolfgang  
von Goethe

Note: Nothing in this publication is intended or written to be used, and cannot be used by any person for the purpose of avoiding tax penalties regarding any transactions or matters addressed herein. You should always seek advice from independent tax advisors regarding the same. [See IRS Circular 230.]  
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