WILLMS, S.C.
CLIENT NEWSLETTER

March 12, 2014

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TO OUR CLIENTS AND FRIENDS:

Whether we drop a donation in the basket each week at religious services, support our local school district or homeless shelter, or respond to the mailings from organizations around the world, statistics show that Americans are a charitable group of people. According to Giving USA's "Annual Report on Philanthropy," Americans donated more than $316 billion to charities and non-profit causes in 2012. Almost three-quarters (72%, to be precise) of giving came not from corporations or foundations, but from individuals. That's a lot of people giving a lot of money to causes that are important to us.

For many of us, we tend to give when we feel like it. While there's nothing *wrong* with this approach, it might not be the best approach. What if we could be methodical and organized, obtain the best tax results, leverage our donations, and involve our whole family? As the deadline to file our income taxes draws near, and as we finish scrambling to locate evidence of last year's charitable giving, this newsletter focuses on different aspects of "planned giving." It's good to be spontaneous, but sometimes even better to have a plan.

One way to give to charity is simply to leave a bequest in a will or revocable trust. While straightforward, these strategies ensure two things: the intended charitable beneficiary does not receive any funds until the death of the donor, and the donor does not receive a charitable deduction during his/her lifetime.

LOWERING INCOME, CAPITAL GAINS, AND MEDICARE TAXES WITH CHARITABLE TRUSTS

ATTY. ANDREW J. WILLMS

On January 1, 2013, Congress passed the American Taxpayer Relief Act of 2012 (ATRA). While this new law ended the temporary nature of the individual tax rates that had been in place since 2001, it also raised those rates and eliminated some deductions for taxpayers whose income exceeds certain thresholds. ATRA also expanded Medicare taxes by adding 3.8% surtax on "net investment income" and raised the top capital gain tax rate to 20%. Fortunately, one thing ATRA did not do is limit the deduction for contributions to qualified charities. Generally speaking, donations to qualified charities are still fully deductible for federal income tax purposes.

As was the case before ATRA, gifts of less than the donor's entire interest in property do not qualify for the income tax, gift tax, or estate tax charitable deduction unless the gift qualifies for an exception to the "partial-interest rule". The most significant exception to the partial interest rule is for gifts to charity made through a charitable trust that meets statutory requirements set forth in the Internal Revenue Code.

There are two types of split interest charitable trusts that qualify for the charitable deduction. They are known as "charitable remainder trusts" and "charitable lead trusts". In appropriate circumstances these charitable trusts may benefit both individuals and charities without violating the partial interest rule. For an in-depth discussion of the benefit of these trusts and how they work, please read more here: **"Lowering Income, Capital Gains, and Medicare Taxes With Charitable Trusts."**

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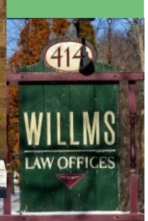

ADMINISTERING PRIVATE FOUNDATIONS

ATTY. MAUREEN L. O'LEARY

Introduction

An important part of engaging in planned giving, especially when considering the use of a private foundation, is understanding the technical aspects and requirements of how private foundations work.

A private foundation is a non-profit organization that donates its funds to various charities or uses its funds directly for charitable purposes. A person (known as the "donor") can establish and fund a private foundation during their lifetime and leave an additional bequest to the foundation upon their death as part of their estate plan. The private foundation then carries on after the donor's death, led by a Board of Directors, to fulfill the charitable purposes set forth by the donor in the foundation's governing documents.

Mission Statement and Governing Documents

The creator of a private foundation should arrange to have a mission statement and corporate governing documents prepared to give the Board of Directors guidance for how the foundation should be managed and how its funds should be distributed so that it is consistent with the donor's charitable goals.

Permissible purposes for a private foundation are: charitable, religious, educational, scientific, literary, testing for public safety, fostering national or international amateur sports competition, and preventing cruelty to children or animals. The term "charitable" includes relief of the poor, the distressed, or the underprivileged; advancement of religion; advancement of education or science; erecting or maintaining public buildings, monuments, or works; lessening the burdens of government; lessening neighborhood tensions; eliminating prejudice and discrimination; defending human rights secured by law; and combating community deterioration and juvenile delinquency.

To read more about the benefits and requirements involved with operating a private foundation, please read more here: **"Administration of Private Foundations."**

BENEFITS OF DESIGNATED FUNDS AND DONOR-ADVISED FUNDS

ATTY. JESSICA A. LIEBAU

The previous two sections discussed private estate planning options for charitable giving. While those options certainly have their benefits, many donors may instead choose to pursue their charitable goals through giving to an existing organization that manages charitable giving for many donors at the same time. "Designated funds" or "donor advised funds" allow donors to engage in a specific plan of giving over a period of time while transferring the administrative and tax reporting responsibilities to a third-party organization. The article **"Considering the Use of a Designated Fund or Donor-Advised Fund,"** explores the incentives and drawbacks of these options.

We hope you have found the topics in this newsletter to be useful. Please let us know if we can provide you with more information on any of these options.

Sincerely,

Willms, s.c.