



FRIENDS OF THE ARMY

ESTATE AND FINANCIAL PLANNING IDEAS

“We’re Sharing Our Home with the Army”

Jack and Christine have been committed supporters of The Salvation Army for most of their married life. Jack is a semi-retired CPA and Christine works as his office manager. A few years ago, when Jack stopped working full-time, they sold their house and moved into a condominium.

Jack and Christine have contributed generously to the Army over the years, including several charitable gift annuities. The couple’s real goal, however, has been to create an “ultimate gift” – a legacy from their estate plan that would memorialize their support for the Army and make a lasting difference for their neighbors in need.

For most Americans, a personal residence is the most valuable asset they own, and the ups and downs of the real estate market haven’t changed that. Jack and Christine saw their condo, now worth about \$300,000, as an asset that could eventually fulfill their dream of “doing something big” to help others.

“At first we were thinking about leaving the condo to The Salvation Army in our wills,” Christine recalled. “But Jack was interested in the tax advantages of deeding the condo over to the Army right now but keeping the right to live here the rest of our lives.

“We sat down with the Army’s planned giving representative who explained that

any personal residence, including condos and vacation property, can be contributed, with the donors keeping a ‘life estate,’” she continued. “That meant that the Army would receive the condo just as if we had left it by will, but now we get an income tax deduction, as well.”

Jack noted that, based on their current ages (82 and 80) and other factors, the planned giving representative calculated they would be entitled to an income tax charitable deduction of about \$134,000.

“Tax savings weren’t the only reason why we chose this approach,” he added, “but it’s a nice bonus, and we take a lot of satisfaction from being able to share our home with the Army in the future, knowing how much good it will accomplish.”



DOING
THE MOST
GOODSM

Inside this issue:

- “The Salvation Army Could Use This”
- Top Six Occasions for Giving Assets
- Best Gifts from Your Estate Plan
- Helping the Army “Outside the Box”



DOING THE
MOST GOODSM

“The Salvation Army Could Use This”

Friends of The Salvation Army are accustomed to sending us checks and dropping cash into kettles at Christmastime. Many also contribute clothing, household furnishings, cars and other vehicles, knowing that we can put these items to good use.

But not many people realize the good works they can accomplish by giving other types of assets, such as appreciated securities, real estate, business interests and other “gifts in kind.”

Some of the largest gifts ever received by The Salvation Army have been in the form of stocks, bonds, mutual funds and other investment assets that had increased substantially in value and were owned by donors for more than one year. These gifts were magnified because donors could deduct what they paid originally, plus all the increase in value. These tax savings, while not the reason people gave, enabled them to “go the extra mile” with their support.

This issue of *Friends of the Army* looks at several of these special opportunities to “do the most good” through the wise choice of gift assets.

Advantages of Giving Real Estate

When you consider making a gift to The Salvation Army, you should be aware of the special incentives Congress has created to encourage gifts of real estate. Gifts can be planned to provide a variety of donor benefits:

- Reduced income taxes
- Reduced estate taxes
- Reduced property taxes
- Lower insurance and upkeep costs
- Avoidance of capital gains taxes
- Financial security for loved ones
- Increased lifetime income
- Continued use of the contributed property during your life

Generally, a person who makes a gift of real estate held for more than one year is entitled to an income tax deduction equal to the full value of the property contributed. In addition, the donor escapes capital gains tax on the profit that would have been taxable

Top Six Occasions for Considering Gifts of Appreciated Assets

1. “My stock portfolio is full of ‘winners,’ but I’ll face significant capital gains taxes if I sell.”
2. “I’m a real estate investor who has done well over the years trading property on a tax-deferred basis (so-called like-kind exchanges) but my cost basis is very low, which means big taxes if I cash out.”
3. “I own commercial real estate and have taken depreciation deductions on the buildings. When I sell, I’ll owe 25% ‘recapture tax’ on most of my gain.”
4. “I’m contemplating selling my house/farm/business/apartment or office building in the near future.”
5. “My investments have grown substantially but don’t produce all the income I need.”
6. “I may be forced to sell certain assets before much longer.”

Do your circumstances resemble any of the above? If so, you may have a unique opportunity to “do the most good” for yourself, the Army and humanity. Just contact our office.



if the property had been sold. Donors may also save estate taxes because a lifetime gift of real estate removes the property from one's gross estate.

Real Estate Gifts with Retained Benefits

If you own your home or farm – or even a vacation home – you additionally can make a gift of the property, obtain an immediate income tax deduction and continue to use the property for the rest of your life (or for the lives of you and another). Call us if you would like to know what your approximate deduction would be.

Another great way to use real estate to accomplish financial objectives and make a gift is to set up a charitable remainder unitrust. This is a trust in which you irrevocably place property, but retain a specified income, usually for life. When the trust ends, the trustee distributes the property to the Army. But because you set up the trust now, rather than leave the property through your will, you are entitled to a substantial income tax charitable deduction.

By setting up a unitrust you can:

- Establish an income for life – one that can grow with inflation;
- Reinvest a highly appreciated, low-yield asset, without incurring capital gains tax – including the 25% “depreciation recapture tax” that occurs with commercial buildings;
- Reduce income taxes significantly;
- Gain the investment and administrative services of a trustee;
- Get rid of the financial and personal burdens of property management;
- Make a magnificent gift to The Salvation Army.

Stock Gifts by Business Owners

One of the most attractive gift options for business owners is to contribute stock in their closely held corporations. Such stock often has ballooned in value and gifts may cost owners just pennies on the dollar,

after taxes. Here's an illustration:

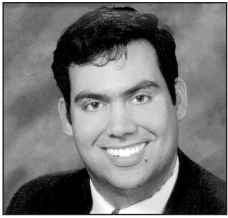
Mom owns 90% of the stock in the Momandpop corporation and decides to give the Army a few shares of her stock – worth, say, \$10,000. The gift of stock leaves her in full control of the business and does not deplete her checking account or personal investments. Yet she is entitled to a \$10,000 charitable deduction on her personal tax return, which would save her \$3,500 in taxes in a 35% income tax bracket.

We have no reason to keep the stock and therefore turn the shares in to the corporation. The corporation pays us \$10,000 cash and retires the stock. Mom avoids capital gains taxes and receives a valuable benefit: a charitable deduction “paid for” by her company. Note: Appraisals are required to substantiate deductions exceeding \$10,000.

Choose the Best Assets to Leave the Army in Your Estate Plan

Certain assets are best left to the Army in your estate plan because they can save income taxes (and possibly estate taxes) for your estate and heirs. Please call us if you would like to plan a gift of any kind, at any time.

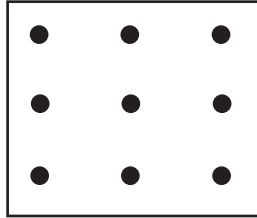
Best Assets for Lifetime Giving	Best Assets to Leave by Will
Appreciated securities	U.S. savings bonds
Commercial real estate	Retirement accounts
Closely held stock	Accounts receivable
Personal residences	Annuity death benefits
Undeveloped land	Installment sale notes



Luke Conway
Senior Planned
Giving Associate

From Our Office of Gift Planning: Helping the Army “Outside the Box”

Does anyone remember how the old saying “think outside the box” originated?



The phrase entered popular usage about 30 years ago as the answer to the puzzle: Can you draw four straight, continuous lines connecting nine dots-in-a-box without lifting your pencil?

The Salvation Army has received a number of important gifts from donors who “gave outside the box” by employing assets and gift techniques that most people have never considered or even heard of. Here are two examples:

■ Marjorie wishes to make a memorial gift to The Salvation Army. She instructs her broker to transfer shares of XYZ stock worth \$10,000 to the Army’s account, selecting the shares that (1) she has owned more than one year and (2) have the lowest cost basis. Her broker informs her that her basis in the gift shares is \$2,000.

Results? Marjorie can deduct the full \$10,000, not the \$2,000 she paid originally for the stock. She avoids \$1,200 in long-term capital gains taxes, and her charitable deduction saves another \$3,300 in her 33% tax bracket. All told, she can give \$10,000

for an after-tax cost of only \$5,500.

■ Ernie has been approached by a developer about selling 40 acres of undeveloped land valued at \$450,000. Ernie bought the land many years ago for \$50,000 and will owe \$60,000 in capital gains taxes when he sells.

Before entering into any sales agreement, Ernie deeds a 20% share of the land to the Army, fulfilling a lifelong dream he’s had to make a major gift. His benefits include a charitable deduction of roughly \$90,000, based on a qualified appraisal, and avoidance of capital gains taxes on the 20% share we receive. The charitable deduction reduces his remaining capital gains taxes to less than \$20,000. The Salvation Army later joins in selling the property and receives \$90,000 for our programs.

We have a helpful booklet, *Phenomenal Gifts with Investment Assets*, that further explains how gifts of investment assets can help you help the Army. We would be pleased to send you a free copy. Just send back the enclosed card. And call us if you’d like an answer to the puzzle!

Sincerely,

Luke Conway



Major David Carr
Planned Giving Associate



DOING
THE MOST
GOODSM

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The purpose of this brochure is to provide accurate information of a general character only. For specific recommendations, each person should consult his or her own qualified professional adviser.