Smart Giving Before Tax Law Changes

By Ron G. Sorrell

Now is the time for top tax bracket individuals to plan their charitable contribution strategies. Since tax rates are expected to drop next year because of tax reform, 1986 may present the last chance to make a gift to the Outrigger Duke Kahanamoku Foundation and other charities and claim a deduction for yourself worth up to 50% of the gift's value.

Strategy: Make charitable gifts before year end. Or even better, arrange matters so that you can claim a deduction now for gifts that will be received by the Foundation in the future.

Speeding Deductions

If you give a regular amount to the Foundation or other charities each year and intend to keep doing so, you can accelerate deductions by making gifts through a "short term trust."

How: You set up a trust with a life of under 10 years, fund it with assets that produce enough income to make annual contributions, and have the trust pay this income to the Foundation.

Benefit: A deduction now for the value of all the gifts that the trust will make during its life.

Example: You usually donate $2,000 each year, so you set up a trust and fund it with $20,000 worth of corporate bonds paying 10% interest. For the next nine years the trust will pay $2,000 annually to the Foundation. Then it will dissolve and you'll get the bonds back.

Results: You get a deduction now for $11,518, which under IRS tables, is the present value of the $18,000 that the trust will pay out over nine years. Cash savings result at up to the 50% rate imposed by this year's top bracket. By contrast, if you continue making a regular $2,000 gift each year, most of your deductions will be postponed (you'll get only $2,000 this year) and they may finally produce cash benefits at no more than the 27% top bracket proposed by tax reform.

Catch: The trust's income is taxed to you annually. In this example, you receive $2,000 in taxable income from the trust each year. But while your $11,518 deduction benefits you at this year's top tax rate, the trust's income will be taxed to you at future year's lower rates. Of course, if you kept the same $20,000 worth of bonds in your personal portfolio instead of in the trust, they'd produce the same taxable income anyway.

Tactic: Fund the trust with municipal bonds that produce tax-exempt income.

Reversing Things

If you wish to retain the use of property while you live but intend to donate it to charity when you die, you can get an income tax deduction now for your future gift. Ways to do it:

- Set up a charitable remainder trust. Fund it with income-producing property (such as securities or rental real estate) that will pass to the Foundation when you die. You continue to receive income from the property for life, and you also get an income tax deduction this year for the value of the gift made to the Foundation on your death. The value of this deduction is determined using standard mortality tables.
- If you don't want the trouble of setting up your own trust, make a contribution to a pooled income fund. Again you receive income from the fund for life and get a deduction now for the value of the gift that passes to the charity when you die. The Foundation will be examining this form of gifting in the near future.
- If you own real property, such as a house, apartment or vacation home, you can donate a remainder interest in it to the Foundation. You simply agree to leave the property to the Foundation. You can continue to use the property for the rest of your life, but again you get a deduction now for the value of your future gift.
- You may be able to claim a no-cost deduction by giving up legal rights that you would never exercise. For example, if you own scenic, historic or undeveloped property, you might establish a conservation easement that prevents the property from

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being developed.

By granting the easement to a charity or to the local government, you can claim a deduction for its value even if you never intended to develop the property in the first place.

Catch: The IRS takes an aggressive position on the value of easements. Make sure you can prove, with appraisals, their fair market value.

EDITOR'S NOTE: Ron G. Sorrell, a Club member of over 40 years, is an investment advisor and a tax shelter consultant of 26 years experience. Mr. Sorrell founded the Outrigger Foundation following many years of extensive research. The IRS approved the Foundation in March, 1983.

In February, 1986, the Outrigger Foundation merged with the Duke Kahanamoku Foundation. The new name is the Outrigger Duke Kahanamoku Foundation. The Foundation has raised a total of $177,453 thus far. The Foundation is dedicated to continuing Hawaii's tradition of athletic excellence as well as perpetuating and developing those sports and events which are a part of Hawaii's cultural heritage.