



Give Now – 2014 Opportunities in Philanthropy



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Opportunities In 2014 For You

- What's in it for you?
- Who is WaterStone?
- Charitable Pooled Trust/Affinity CPT
- Entrepreneur's Toolbox: S-Corp Gifts

What's In It For You?

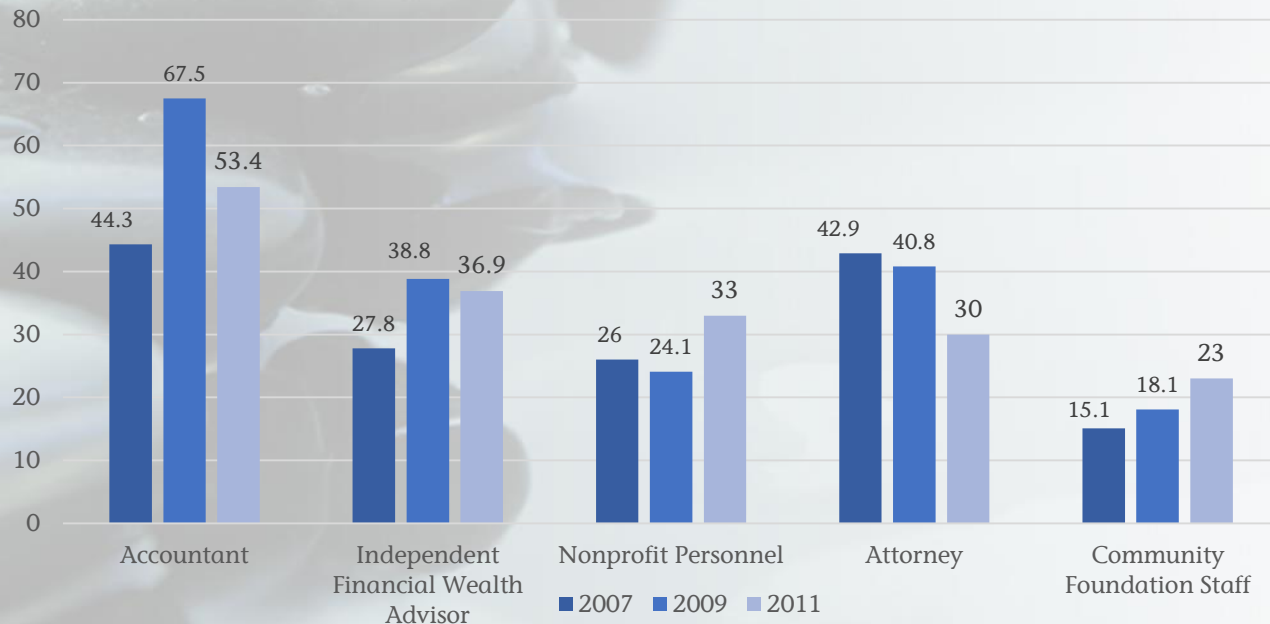
- Grow your business
 - Serve more clients
 - More Assets Under Management
- Become a more capable steward of your client relationships
- Develop a non-profit alignment to help you grow

Your Clients are Already Generous

Clients are Looking to You

B of A Study on High Net Worth Philanthropy (2007 vs 2011):

- 95% of HNW individuals give to charity (vs 65% of general population)
- 40% of HNW individuals sought advice from outside consultants regarding their giving, with a growing trend toward financial/wealth advisors as their consultant of choice



*700 High Net Worth households; HNW defined as Income \geq \$200K or Wealth \geq \$1M

A Trusted Partner: The Advisor's Edge

New Service, New Clients:

New AUM opportunities
Expand prospecting base

New Conversation, Existing Clients:

Uncover Hidden Assets
Spark Referrals

Advisor's Trusted Partner

Increased Value of Services:

Client Satisfaction
More AUM

Professional Satisfaction:

Steward of relationships
Higher purpose

Your Unique Opportunity

Nothing is as powerful as an idea whose time has come.

Victor Hugo

**At WaterStone, we believe in the
transformational power of giving.
We serve advisors like you and your clients
to facilitate wise giving.**

WaterStone

- Incorporated in 1980 as Christian Community Foundation, Inc. as a public charity, 501 (c) (3)
- Pioneer in Donor Advised Funds: NFI vs. United States (1987)
- Entrusted with over \$600M in resources since inception
 - Surpassed \$400M in donor directed distributions
 - Manages assets of \$260M in various forms ultimately to be deployed to build the Kingdom
- Managing 2,500 Giving Fund (DAF) Accounts, Trusts, Annuities and Ministry funds
- Supports over 3,000 ministries and nonprofit organizations
- Led by business leaders and entrepreneurs: CEOs, Presidents, MBAs with leadership roles in private equities, hedge funds, consulting, business ownership and banking

Charitable Pooled Trust Opportunity Overview

- **Tax Deduction** - Unprecedented charitable tax deductions for an income producing gift driven by historically low discount rate for “young funds”
 - IRS, not market performance, determines the interest rate to be used in calculating the tax deduction for recently established funds
- **Lifetime Income** - Income provided through a variety of diversified investments
 - A range of investment opportunities, some non-correlated to the broader market, targeting high yield
 - Advisors may invest in their own managed fund
- **Charitable Good Works** – An irrevocable commitment to give to your chosen charities through your giving fund

Charitable Pooled Trust

- **Charitable**

- Charitable vehicle approved by the IRS since 1969
- Split interest gift – charitable tax deduction and income for life
- Full principal balance to charity at maturity

- **Pooled**

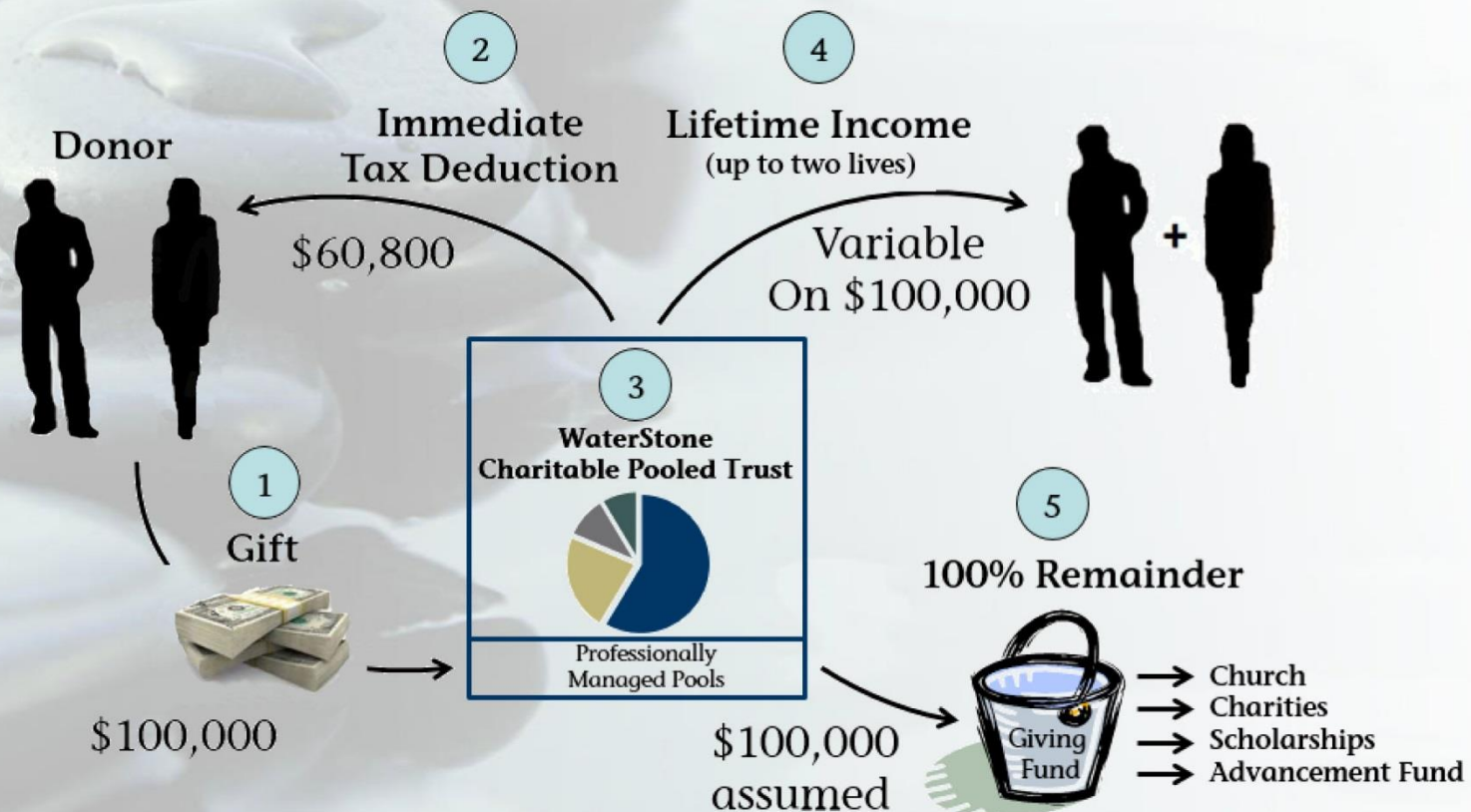
- Like a mutual fund – co-mingled fund, separated into pro-rata shares
- Premium investment options

- **Trust**

- Stand alone trust with WaterStone serving as trustee
- Income defined and produced by the underlying investment
- Net income distributed in full each year for the life of the income beneficiaries

Charitable Pooled Trust Example

- Couple, both 50, gift \$100,000 to a Charitable Pooled Trust
- Receive \$60,800 tax deductions driven by a historically low discount rate
- Invested according to your risk/return need
- Receive lifetime variable income on \$100,000 from premium investment options
- Establish a charitable legacy that fits their values, goals and wishes



CPT Tax Benefits

- **Charitable Tax Deduction Calculation**

- Date of birth of income beneficiaries
- Net Fair Market Value (FMV) of property transferred
- 1.4% IRS mandated Applicable Federal Rate (AFR) for “young funds” – Charitable Pools \leq 3 years old

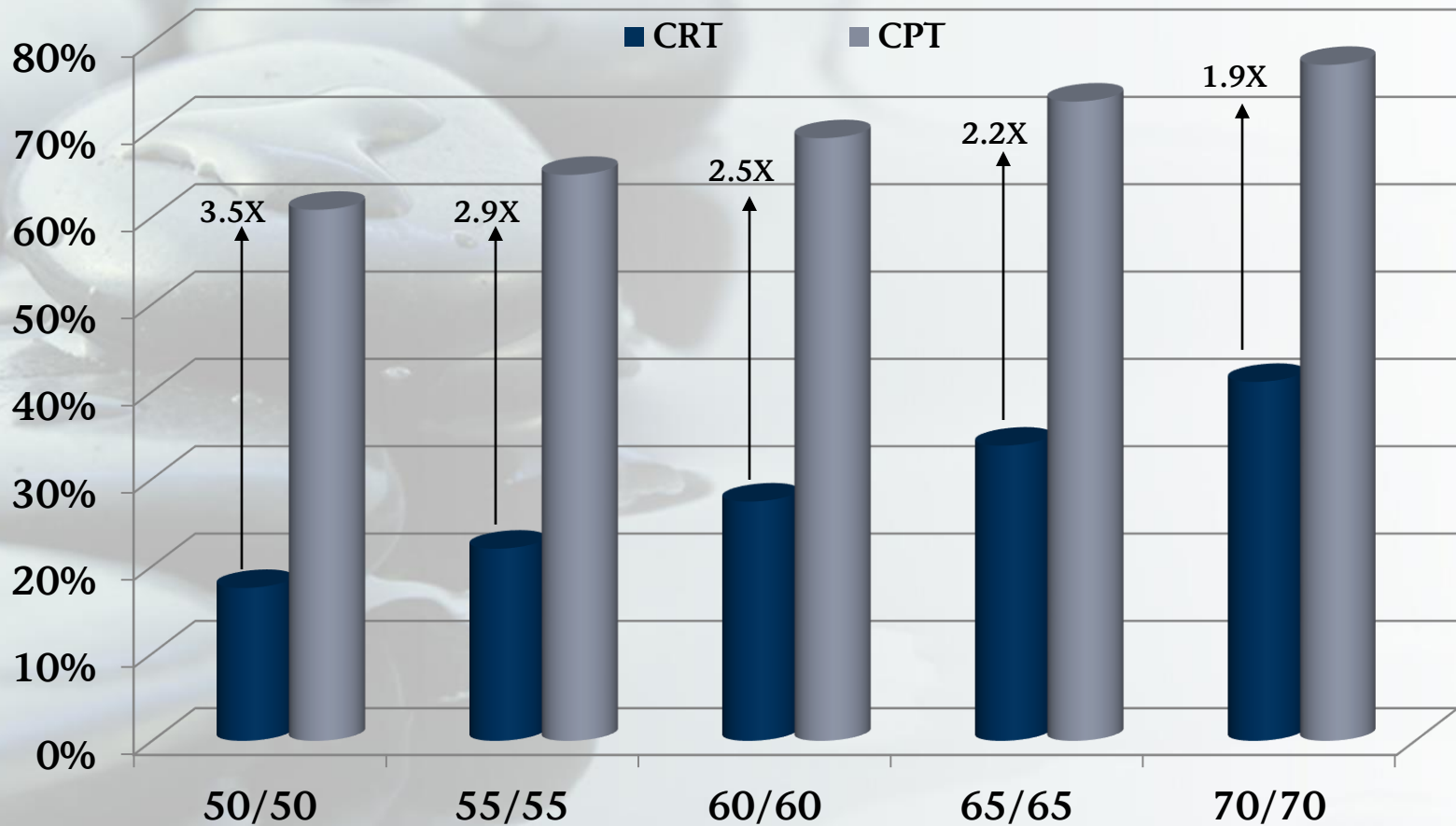
- **Charitable Tax Deduction Application**

- Cash - Offset 50% of AGI
- Stock - Offset 30% of AGI
- 6 years to utilize tax deduction (current year plus five)

CPT Tax Benefit

Charitable Tax Deduction Comparison

CRT vs CPT (5% payout, two life)



* Assumes: two life, 5% annual payout rate, CPT AFR = 1.4% (2014); CRT AFR 2.2% (3/14)

CPT Income Benefits

- Pro-rata share of the entire “net investment income”
- Defined as interest, dividends, rents, royalties and net realized short-term capital gains
- Retains tax character of income produced
- Give the Client a breadth of options

CPT Case Study #1

Sell and Reinvest Example

The Smith's, a 65-year-old couple, have \$100,000 in zero-basis, low yield securities. They desire income.

- If sold, they will pay at least 15% capital gains tax, leaving \$85,000 in net proceeds to reinvest
- If money is invested for a 6% yield, annual income will be \$5,100
- If either Smith lives their 27 year life expectancy, the total lifetime income will be \$137,700

CPT Case Study #1

Nearly 50% More Personal Lifetime Benefit

Give to CPT and Reinvest Example

The Smith's contribute the \$100,000 in zero-basis securities to a similarly invested Charitable Pooled Trust yielding 6%. By using a CPT they will:

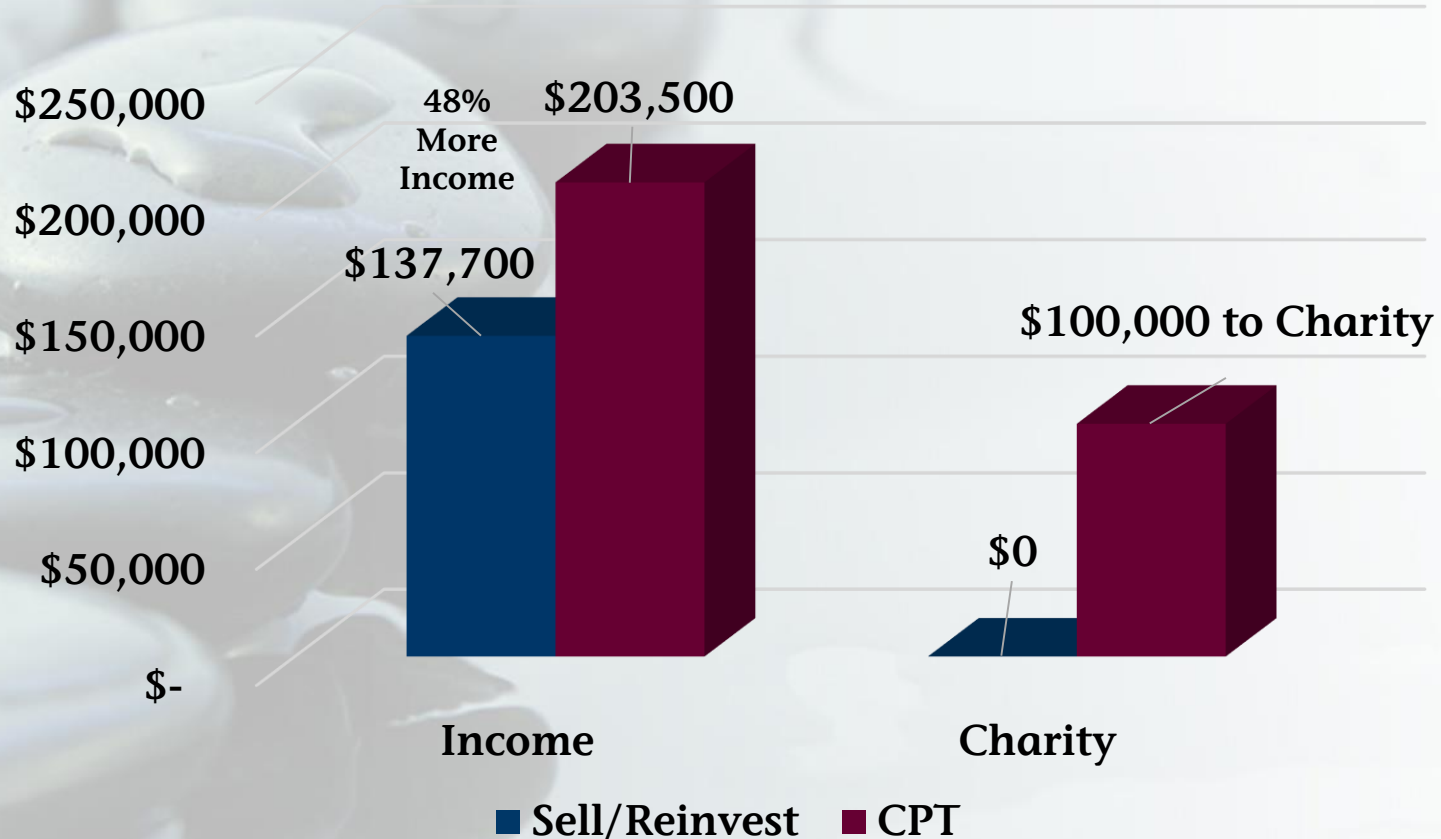
- Avoid 15% capital gains taxes, saving \$15,000
- Get a charitable deduction of \$73,198, worth \$25,619 assuming a 35% federal tax bracket
- Increase their investable funds from \$85,000 to \$125,619 if they invest their tax savings
 - At 6% would yield over \$7,500 in annual income
 - If either Smith lives their 27 year life expectancy, the total lifetime income will be \$203,500
 - 48% more personal benefit

CPT Case Study #1

Nearly 50% More Personal Lifetime Benefit

	Sell and Reinvest	Charitable Pooled Trust	Your Benefit Using CPT
Principal Reducing Capital Gains Tax	<\$15,000>	0	
Value of Income Tax Deduction (\$73K x 35%)	0	\$25,600	+\$23,500
Net Principal Available (+/- Taxes)	\$85,000	\$125,600	
27-year Income (assuming 6% return)	\$137,700	\$203,500	+\$65,800
Percentage Benefit to Couple	\$137,700	\$203,500	48%
Total Benefit to Charity	0	\$100,000	+\$100,000

Create More Lifetime Income and Charitable Benefit Using CPT



CPT Case Study #2

Conventional to Roth IRA Conversion

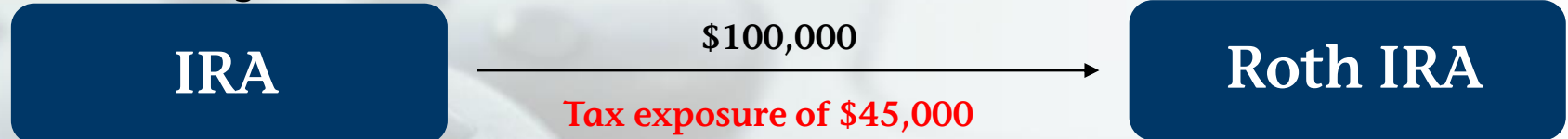
Mr. Jones, 53-years-old, wants to convert \$100,000 from a Conventional IRA to a Roth IRA while minimizing the tax consequences

- He is charitably minded and has free cash to either pay the tax or make a gift to offset the tax

Roth Conversion with CPT

1) Convert \$100,000 to Roth

Client age - 53



2) \$65,000 given to CPT

\$65,000

Tax deduction of \$45,000



3) Over ~30 years, CPT distributes ~\$3,900/yr to Client/Family



~\$3,900/yr
Lifetime Income

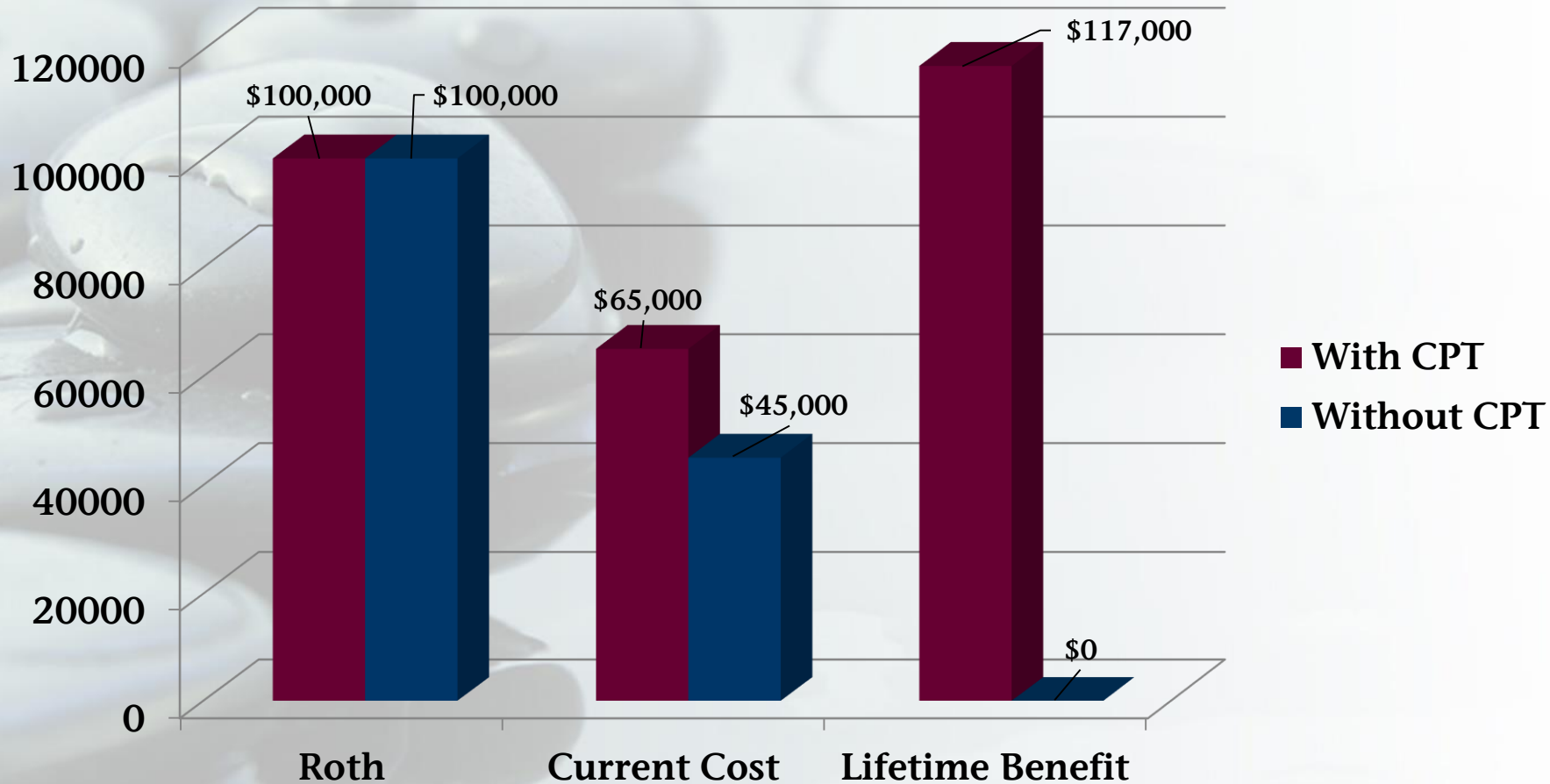
4) CPT distributes assumed \$65,000 principal to DAF at death of giver



\$65,000
Trust Principal

* Assumes 6% annual taxable portfolio return

Roth Conversion with CPT Eliminates Taxes and Creates Income



Affinity CPT

- Defining a pool
- Benefits
- Case Study

Benefits of Affinity CPT

- A derivative CPT strategy with all the tax benefits of a CPT
- Designed with a particular family in mind
- Advisor inclusive – the givers' trusted advisor manages the fund with income orientation approved by the Trustee
 - Consistent with Trustee's general value proposition to support advisors
- Potentially more funding options – not limited to cash and marketable securities; complex assets may be considered
- Potentially broader underpinning fund strategy – investment flexibility, specifically customized to the couple

Affinity CPT Case Study

Example with \$1M CPT interest

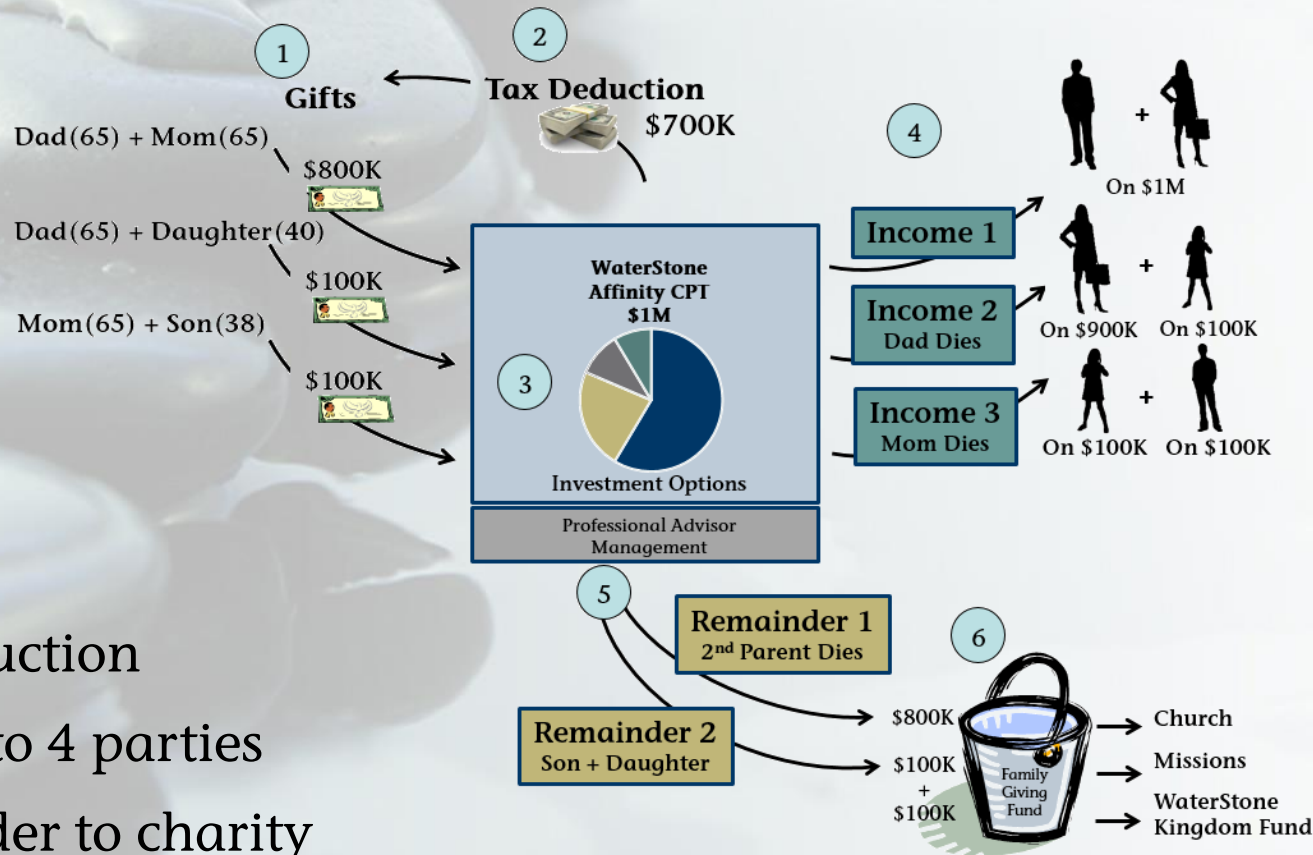
	<u>Current Year Tax Deduction</u>
Father and Mother (both age 65) - \$800K to CPT	\$ 585,600
Father and Daughter (age 40) (consecutive) - \$100K to CPT	\$ 58,300
Mother and Son (age 38) (consecutive) - \$100K to CPT	<u>\$ 57,000</u>
	Total \$ 700,900

May be invested in their advisor's existing managed account

- Father and Mother earn income on \$1M until Father dies
- Father dies, Mother receives income on \$900K;
Daughter begins receiving income on \$100K
- Mother dies, Son begins receiving income on \$100K;
Giving Fund receives an assumed \$800K
- Son and Daughter die, the trust closes; Giving Fund
receives an assumed \$200K

Affinity CPT Case Study

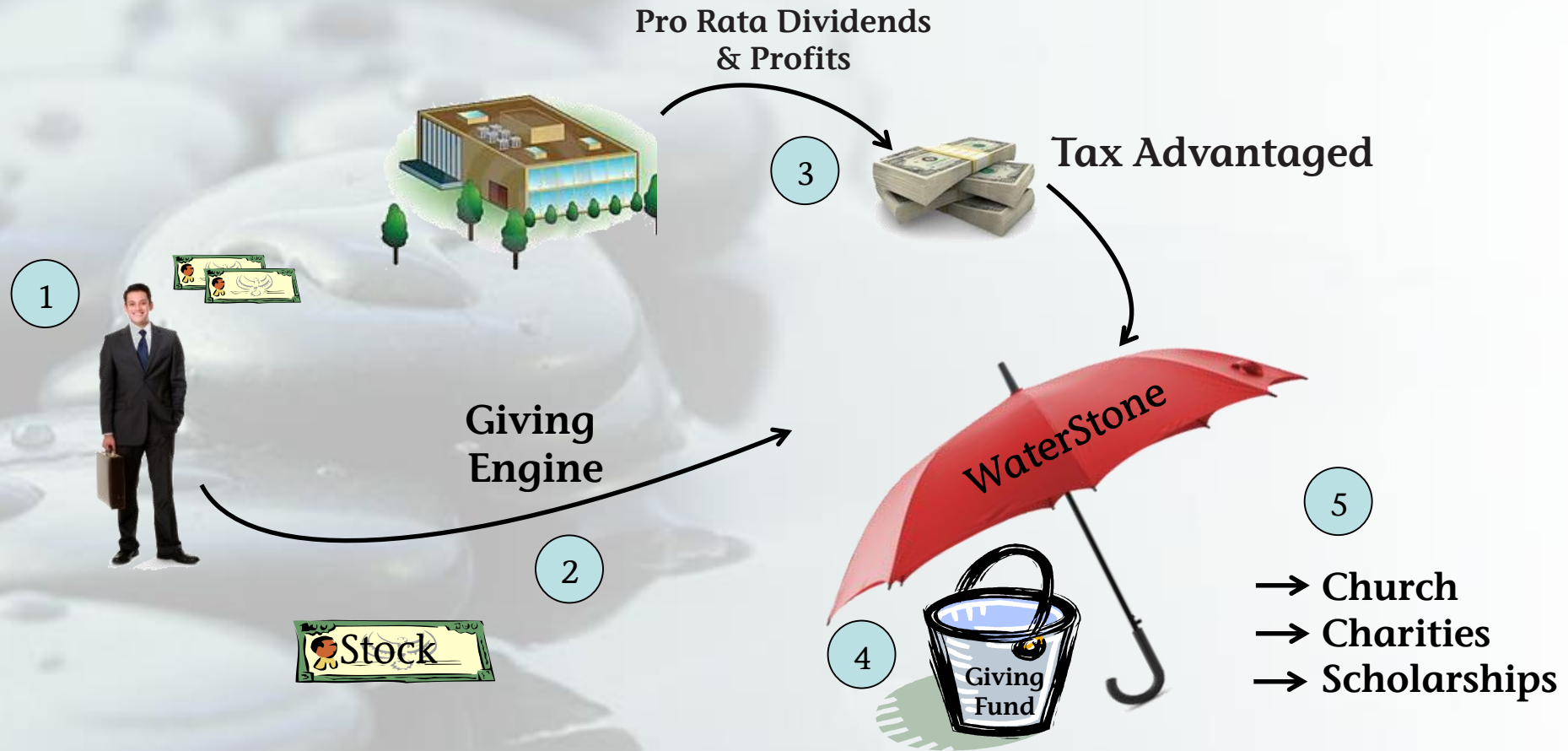
- **Family: Parents (Dad, 65 and Mom, 65) + 2 Children (Son, 38 and Daughter, 40)**
- **Charitable Intent: \$1M Gift to Church and Charities**
- **Economic Need: Variable Income for Life (Lives)**
- **Tax Benefit: \$700K Immediate Tax Deduction**



Entrepreneur's Toolbox

- Charitable Giving Engine
- Charitable Stock Swap
- S-Corp Gifts to an SO Trust

Charitable Giving Engine



1. WaterStone crafts an overall plan based on giver's charitable goals
2. Giver donates stock to WaterStone; avoids capital gains; receives FMV tax deduction
3. Company distributes pro rata share of dividends and profits to WaterStone account
4. Funds managed by giver's chosen professional until distributed, if > \$50,000
5. Giver utilizes business cash flow to fund his favorite ministries

Charitable Stock Swap



1. Business issues stock to business owner (majority shareholder)
2. Giver donates stock to Giving Fund; gets fair market value deduction based on appraised value
3. Business purchases stock back from Giving Fund as cash flow from operations allows; Capital Gains Taxes avoided by giver
4. Giving Fund distributes to giver's charities
5. Repeat step 1-4

Gifts of S-Corp Securities

- Giving Fund can receive a S-Corp gift
 - Doesn't eliminate S-election
- Most ministries cannot receive S-Corp
- Cannot avoid all capital gains taxes
- Using Support Organization Trust in Texas, giver avoids approx. 50% of Capital Gain exposure

Gifts of S-Corp Securities

- Two shareholders each donate a 5% interest in a Subchapter S Corporation valued at \$1.0 million each
- Their combined basis in the stock is \$500,000
- Later, the stock is sold for a total of \$2.0 million

	Public Charity	Support Organization Trust
Gross Amount of Gift	\$2,000,000	\$2,000,000
Gain on Sale	\$1,500,000	\$1,500,000
Tax Due	\$ 510,000*	\$150,000**
Tax	Unrelated business income tax (UBIT)	Capital gains tax with charitable deductions

* Taxed as ordinary income using corporate rate of 34%

** Taxed at capital gain rate of 20% with deduction allowed up to 50%; thereby an effective rate of 10%

WaterStone is Here to Serve

Questions

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