

CHARITABLE PLANNING

# Identifying Charitable Planning Opportunities

Prepared for  
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# Identifying Charitable Planning Opportunities

Charitable planning provides great opportunities to reduce taxes in an estate plan and leave a lasting legacy to a meaningful cause or community. For clients without descendants, it provides an opportunity to perpetuate a client's family name or remembrance well after their departure, and for those with descendants a potential family standard to uphold for future generations.

Taxation has reached a point that often the government (federal and state) may be taking about 40% to 50% of every dollar earned for middle to upper-class Americans. With planning, those percentages can be reduced. Charitable planning provides for tax deductions or the ability to pass assets with discounted valuations while, at the same time, providing the ability to direct assets that would have ordinarily been paid in taxes to charities and causes that have meaning or relevance to the client.

Persons most likely to benefit from charitable planning are business owners, entrepreneurs, professionals, investors, retirees, those experiencing substantial excess cash flows, those with highly appreciated assets, and parents with idle wealth.

## Business owners and entrepreneurs

Business owners and entrepreneurs nearing retirement or those seeking to sell their businesses present charitable planning opportunities; however, such planning will often complement the anticipated retirement or the business sale. Approaching the client from a business succession planning perspective may present the best opportunity for success. The business succession planning process should drive the overall approach to optimize the client's goals related to the retirement or sale, and the charitable planning component can be harmoniously utilized to obtain tax advantages to mitigate the tax impact on the planned cash flows resulting from the sale or retirement. Retiring business owners or entrepreneurs selling their businesses will often face substantial excess cash flow issues, as addressed below. The business interest also may be highly appreciated, which would make the discussion presented below applicable as well.

## Professionals

Professionals such as doctors, attorneys, engineers, and licensed sales professionals often experience substantial excess cash flows due to the cyclic nature of their professions or windfall bonuses or events. Additionally, these professionals may also experience issues similar to business owners and entrepreneurs if they operate or own the firm or practice.

## Substantial excess cash flow

Clients experiencing cash flows that exceed their needs over a period of time, such as lottery-annuity payment recipients, mineral interest owners, pensioners, and those receiving installment sale payments, may be able to utilize charitable planning to mitigate taxation or defer receipt of the income or redirect it to other loved ones. Income taxes are based upon marginal tax brackets, higher incomes face higher income tax brackets. The ability to defer income to a later date, when less income is anticipated, permits the income to face lower marginal tax brackets rather than having income stacked in high-income years and subjected to the highest marginal income-tax rates.

In such situations, a charitable lead trust could permit the client to pour the excess income into a trust. The income beneficiary (charity) uses the income for a period of time, and the remainder beneficiaries (the client or client's loved ones) receive the principal back at the expiration of the trust. The returned principal receives a discounted valuation as a result of the income interest benefiting the charity.

## Appreciated assets

Clients with highly appreciated assets, such as real estate or securities investors or closely held business owners seeking to sell their company, may have assets that they wish to sell or transition to other investments; however, the capital gains taxes

that would be imposed upon the sale make them reluctant to make the change. Charitable planning provides opportunities to make such transitions or sales much less taxing.

Charitable remainder trusts permit the client to gift the appreciated property to a trust, which subsequently sells the appreciated assets free from taxation. The client or the client's loved ones are the income beneficiaries to the trust and at the expiration of the beneficiaries' lives (or after a term of years) the trust terminates, and the remaining trust assets pass to the charity. The client receives an income tax deduction for the remainder interest intended to pass at the termination of the beneficiaries' life expectancies. In effect with the use of charitable planning, assets that otherwise would have been paid in taxes as a result of a taxable sale are retained in the trust to provide investment income to the trust's beneficiaries with the remainder passed ultimately to a charity.

## Parents with idle wealth

Charitable planning for parents with idle wealth may help perpetuate responsible descendants. Parents that have acquired wealth through hard work and wise stewardship usually enjoy the benefits of a well-developed character earned through years of toil and growth over time. Their children and grandchildren, not having to experience much struggle due to the parents' success, may be taught character and exceptional business acumen by and through philanthropy. The parents' knowledge, skill, and character gained through successful business endeavors may be taught first-hand to their children while jointly engaging and actively participating in charitable organizations or causes endearing to the family as a whole. Charitable planning can be used as an effective tool and means to provide meaning, context, and a family standard for later generations to uphold and work toward for the defense or propagation of the cause or causes championed with a foundation or donor advised fund.

## Conclusion

Charitable planning may seem intimidating; however, there is no need be an expert on the subject. Knowing persons knowledgeable in such matters is more than sufficient. Clients often are unaware of the taxation benefits that may be obtained with charitable planning. Spotting and identifying prospects or clients with issues such as have been addressed here may greatly assist the client's overall plan and the community as a whole.

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