FINANCIAL DECISIONS

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# Why Give Securities To Charity Instead Of Cash?

Want to make a sizable donation to your favorite charity? Of course, you could write out a big, fat check to the organization and claim a current tax deduction for your generosity. But you might fare even better, when taking taxes into account, by donating securities that have appreciated in value. As a bonus, you won't have to sell anything or dip into your cash to pay for the gift.

There's a simple tax incentive for donating stock rather than cash. If you write a check, you generally can write off the exact amount on your federal income tax return, subject to an overall charitable limit of 50% of your adjusted gross income (AGI) for the year. However, if you donate securities, you can deduct the fair market value (FMV) of the investments on the date of the contribution and avoid being taxed on the profit you would have made if you'd sold that holding.

In other words, you (and your charity) would benefit from the stock's appreciation without being taxed on it. It's as if your gains never occurred—except for the tax break you would get to enjoy.

However, this works only if you've held an investment for more than a year. That's the definition of "long term" for calculating taxes on capital gains. When donating short term holdings, your deduction is limited to your basis in the stock, which is usually what you paid for your shares. So there's no tax reward for giving away stock you've acquired within the year, no matter how much its price may have increased.

Let's take a look at two hypothetical examples to see the tax difference.

**Example 1:** Suppose you acquired ABC Co. stock nine months ago for $10,000. The stock is now worth $15,000. If you donate the ABC stock to a charity, your deduction is limited to your basis, or $10,000. There's no tax benefit from the $5,000 of appreciation in value. In fact, you would be giving that away for nothing.

**Example 2:** Suppose you acquired XYZ Co. stock two years ago for $5,000 that is now worth $15,000. In this case, if you donate your XYZ shares to charity, your deduction is based on its FMV, or $15,000. You would get to deduct the entire $15,000 even though you only paid $5,000 for the stock.

Understanding these rules can help you decide which investments to donate. For tax purposes, it's generally best to give the long-term holdings that have gained the most in value. It makes little tax sense to donate stock that has moved up only a small amount, especially if you've owned it for a year or less. These differences may be especially important to donors in high tax brackets.

*(Continued on page 4)*

## *A Low-Tech Holiday*

Looking for sure-fire ways to beat the holiday blues? Well, to paraphrase the late Timothy Leary, just "turn off, tune out, drop in." Try taking a step back in time. Shut down your cell phone, laptop, and "smart watch." Ignore your emails, texts, Facebook, Twitter, and enjoy some of these old-time holiday favorites:

**Turn off:** Forget typing with your thumbs – write a letter, with a pen, on paper. Choose a relative or an old friend you haven't seen in a while. (Bonus points if you actually can find a postage stamp at home!)

**Tune out:** Avoid the television, internet, and radio – and their endless stream of sensationalized news. Spend a day eschewing current events. Call someone you like, just to chat.

**Drop in:** Remember when "visiting" with friends was a regular part of our routine? Bake a pie, or make a casserole, and take it over to a neighbor's house. Then just sit and chat for a spell. (Note to our younger readers: it's more fun than it sounds.)

One last tip: Get some pictures printed. Many of us collect thousands of photos on our cameras and cell phones, but never bother to print them. Go ahead and print up a few dozen. You can take them with you when you visit friends!

Here's to a happy and healthy holiday season!

Florence Dupont, Ken Gutwillig,

and Linda Schoenthaler

# Teaching Children Obligations Of Wealth

One of your greatest gifts to your children and grandchildren could be your spirit of philanthropy, an understanding that with wealth comes a responsibility to help other people. But charitable instincts may not come naturally, and the sooner you involve your heirs in your own good works, the more likely they'll carry on your tradition of giving.

You might start by inviting them to help you with your contributions. Then, as they see which causes you support—and how much satisfaction it gives you—they can begin to find their own philanthropic paths. These suggestions can help.

**Set the rules.** A bit of structure helps kids organize resources, set goals, and learn to compromise with other family members about who should receive their charitable gifts. You can work with them to establish guidelines for when family members first get involved, how much they give, and what contact they may have with the recipients of the gifts. In 2005, Foundation Source released The Gifting Game, an interactive tool that helps families select organizations for charitable donations.

**Call a meeting.** The family that gives together is more likely to keep the momentum going. Gather everyone together annually and compare last year's results with what you hope to accomplish this year. When the business portion of the meeting is over, celebrate together.

**Consider a match.** When children agree to donate some of the money you've given them—or to contribute part of their earnings from chores, summer jobs, or an allowance—a matching donation from a parent or other family member can reinforce the giving habit.

**Give them freedom.** When kids, with an adult's guidance, get the opportunity to create their own programs of charitable giving, the projects may take on a life of their own. One wealth manager began a family tradition of giving each of his eldest grandchildren $200 a year to spend on that child's choice of charity. Together, the children have created a structure for their fledgling foundation and are getting additional siblings and cousins involved.

**Let them choose.** Inviting kids or grandkids to donate to your favorite charity is one thing, but the lesson of charity is much more effective when children are allowed to choose their own causes and discover the joy of giving. Children can be deeply moved by disasters reported in the media and the people affected by them. In addition, many children are eager to give to organizations that have touched the lives of people they know, such as researchers for various diseases, hospitals, and nonprofit groups in their communities.

We can help you involve your heirs in your philanthropic initiatives, explain the financial aspects of charitable giving, and work with them to develop their own programs of giving. ●

# Start Estate Planning For Your Child Now

You may already have had a power of attorney drafted that lets you act on behalf of elderly parents. And it's possible you have estate planning documents dealing with the possibility that you or your spouse could become incapacitated. But what about your college-age children?

That's not as crazy as it may sound. Once a child becomes an adult under state law, you may have to rely on the following documents to enable you to make important medical and financial decisions for your son or daughter.

**Health care proxy.** Under the landmark Health Insurance Portability and Accountability Act (HIPAA), parents may not have access to their children's medical records even in the case of a serious accident or illness. HIPAA generally prohibits medical providers from revealing confidential information about their patients. However, a health care proxy can give parents the access they need. This document allows a child to designate someone—usually a parent—to make health care decisions on the child's behalf in case of physical or mental incapacitation. Such decisions may include approving treatment options and medications. If you establish a health care proxy with your child, be sure to provide copies to the college health services and to the child's primary physician.

**Durable power of attorney.** This document ensures ongoing management of the financial affairs of a child who's unable to take care of those matters. Typically, such a document designates a parent as "attorney-in-fact," so that if a child becomes incapacitated, the parent can step right in. For example, you might need to take action relating to investments, bank and credit card accounts, leases, student loans, tax filings, and the like. A durable power of attorney could also let you take

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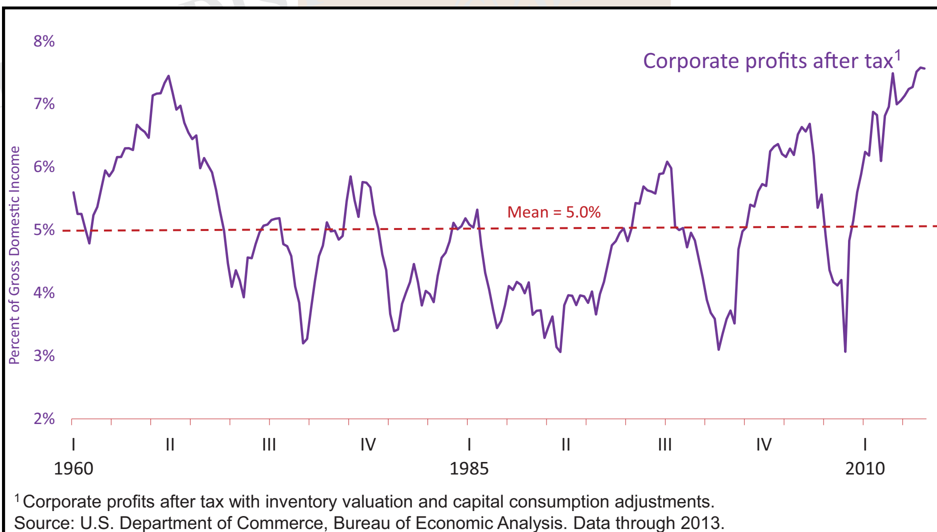
# Good News On Profit Margins

Ultimately, stock prices are driven by profits. Profit margins in recent years expanded beyond historic norms, leading to speculation lately about what might happen if margins were to revert to their long-term mean. It almost certainly would be a disaster for stocks. When you look at the facts, however, it seems unlikely profit margins will come under pressure anytime soon. To the contrary, economic fundamentals indicate that profit margins could continue to expand.

Profit margins have expanded by three percentage points since the 1970s, according to Fritz Meyer Economic Research. The share of gross domestic income that goes to compensation of employees, or labor costs, declined by 6½-percentage points. Meanwhile, the share of domestic income going to pay for fixed capital increased by 3%. The difference—3.5 percentage points of U.S. gross domestic income—has been accrued by corporations, pumping up their profit margins. A historic replacement of labor with capital has unfolded over the last four decades, an astounding period for productivity growth.

And that's not the only factor causing the expansion of profit margins in corporate America. The other reason profit margins have grown fatter—and provided a bullish backdrop for investors in stocks—is that net interest expense has declined by four percentage points, which likewise boosted corporate profit margins by four percentage points. On top of that, a gradual decline in corporate income taxes helped to boost profit margins further. Altogether, this confluence of economic circumstances created an economic and investment climate propelling profit margins to record levels. Better still for investors, these fundamental factors are unlikely to reverse, much less suddenly collapse.




[1] Corporate profits after tax with inventory valuation and capital consumption adjustments.
Source: U.S. Department of Commerce, Bureau of Economic Analysis. Data through 2013.

The drivers of profit-margin growth is that companies are realizing that lowering labor expense by buying capital is a tradeoff well worth making, and the trend is accelerating. While these broad trends cause massive changes in people's lives and families, they are good overall for the economy in the long haul.

The relentless substitution of capital for labor over the last few decades can continue even as the economy makes gains in employment. In fact, unemployment, the stubborn problem hampering the economy since The Great Recession of 2008-2009, has at long last been settling toward its long-term norm of 4%.

At the same time, interest expenses are unlikely to rise sharply anytime soon. "With inflation low and some slack still present in the job market, sharply higher interest rates are unlikely to be right around the corner," says Fritz Meyer, an independent economist. Meanwhile, pressure is mounting on Congress to lower corporate taxes in order to bring U.S. corporate income tax rates in line with those of other developed nations. This sets the stage for the continued expansion in profit margins, a bright spot in a complicated and often frightening world for investors.

And that's how you should think of this good news: as a bright spot in a complex and unpredictable world that could change anytime. Assuming that the world remains largely the same, however, the news on profit margins is good for long-term stock investors. ●

care of things stateside while your child goes abroad for education. Be sure to give copies to your child's school, the financial aid office, and other relevant parties.

**Wills and trusts.** Though many college-age children may have no need for a will, it's a sensible precaution for those with substantial assets. A will and perhaps a trust can help avoid having assets revert to the parents if a child should die—a transfer that could complicate the parents' estate plans. Trusts can be efficient tools for sending wealth directly to a sibling or to another relative, and assets held in trust are also exempt from probate. Finally, wills and trusts can be structured to minimize potential estate taxes.

If a child becomes incapacitated without a health care proxy or durable power of attorney in place, the family may be forced to pursue a guardianship or conservatorship arrangement. That can be costly and time-consuming—and easily avoided by establishing these few essential estate planning documents. ●

Please remember that different types of investments involve varying degrees of risk, and there can be no assurance that the future performance of any specific investment, investment strategy, or product (including the investments and/or investment strategies recommended or undertaken by Financial Decisions, Inc.), or any non-investment related content, made reference to directly or indirectly in this newsletter will be profitable, equal any corresponding indicated historical performance level(s), be suitable for your portfolio or individual situation, or prove successful. A copy of the Financial Decisions, Inc.'s current written disclosure statement discussing our advisory services and fees is available upon request.

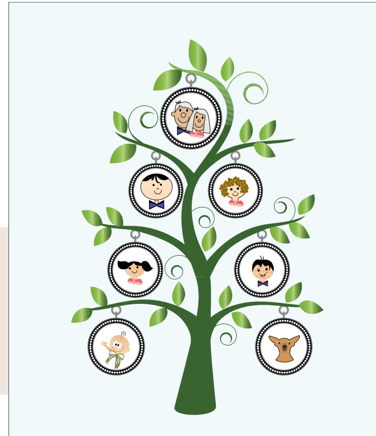
# What Do You Want Your Legacy To Be?

Imagine what would happen to your family if you died unexpectedly. Even if you have a will and an estate plan in place, your heirs may feel rudderless without your guidance. They may not be able to take advantage of what you might have taught them about financial matters or about life in general. And you may never have the chance to pass along the stories and memories that helped make you the person you are.

A process known as legacy planning could help you avoid that sad result. This isn't about tangible items such as wills, trusts, and powers of attorney. Instead, legacy planning encompasses your personal values, hopes, and expectations. It also touches on practical issues you may not have addressed with your family.

The concept of a legacy plan isn't new. In fact, its roots can be traced back to the "ethical wills" used in biblical times. But legacy planning is often neglected today, to the detriment of family members who might benefit from your efforts. And while there's no precise blueprint for what to do, these four steps could get you started.

**1. Organize and update documents.** Create a spreadsheet listing where you keep important papers and other items. These locations may range from a safe deposit box in which you store trust documents to the hook in the garage where you hang spare car keys. Make sure the list includes the names and contact information of your professional advisors and other important people.



**2. Share your personal values and history.** Spell out in writing your preferences regarding culture, religion, education, and other traditions. Impart any personal messages and inspirations you would like to pass along to a younger generation. If you're especially diligent, you might even chronicle the main events of your life in a brief autobiography.

**3. Document the details.** Be as specific as possible regarding your future wishes. For instance, you could leave detailed instructions regarding how to manage investments and other financial matters, funeral arrangements, and other related concerns. You might even include suggestions about how to care for a pet or run the household.

**4. Live with a purpose.** Going through this process will undoubtedly give you a new perspective, and may encourage you to find new ways to live your life to the fullest. For instance, you could create your own "bucket list" of things you'd like to accomplish during your lifetime and then start working your way through those experiences.

Keep in mind that a legacy plan is meant to complement—not replace—your existing estate plan, although the process of creating it might lead you to modify your will or other documents. We would be glad to help you coordinate these plans. ●

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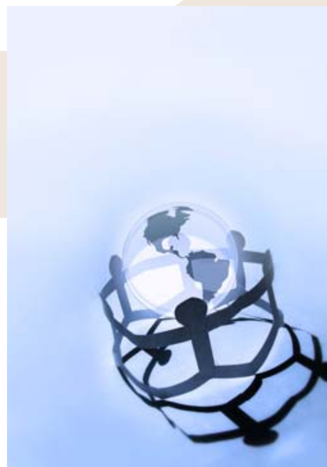
## Give Securities To Charity?

*(Continued from page 1)*

If you donate stock that has lost value, your deduction will be based on the stock's FMV. In this case, it usually makes sense tax-wise to sell the stock first and then donate the proceeds to charity. This way, you can claim a capital loss that you could use to offset capital gains from other securities sales.

There are a few other tax wrinkles to consider when you're thinking about giving securities to charity. That 50%-of-AGI limit applies to all cash gifts during the year, whereas charitable gifts of property are limited to 30% of your AGI for the year—though you can carry over any excess to subsequent tax years. In addition, some itemized deductions for high-income taxpayers, including those for charitable contributions, may be reduced by the "Pease rule." Generally, this reduction is equal to 3% of deductions exceeding an annual threshold amount (indexed for inflation), but the reduction is capped at 80% of your total deduction. For 2014, the threshold for the Pease rule is $254,200 of AGI for single filers and $305,050 for those who file jointly.



Finally, there's more at stake here than just taxes. Investment factors, too, come into play, and it's usually better to choose stocks that you feel have reached peak value than those that may continue to rise. You also may want to keep stocks that pay solid dividends. And there could be consequences relating to your estate plan and assets you might want to leave to your heirs instead of donating to charity.

The best approach is to consider all the significant factors before giving securities to a charity. We can help you coordinate your decisions with other aspects of your investment and estate plans. ●



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