

## GUEST COLUMN: FINANCE



# Giving while living, like Warren Buffett

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Many have tried imitating the incredible success of Warren Buffett's investing style. Will he also now lead the way in how the wealthy conduct their philanthropy?

I'm pretty sure that you've recently heard the news that Warren Buffett is giving away the bulk of his \$37 billion dollar fortune to his pal Bill Gates'

charitable foundation. His previous plan was to give it all away at his death. But giving while living can often be an excellent choice. First, you get to see the results and reap the joy of giving. And, in most cases, donors can be involved and see that their money is used most effectively and their legacy is fulfilled.

Of course, you can always give when you are no longer around by making outright bequests in your will and by making a charity the beneficiary of an IRA, a retirement plan or life insurance policy.

Giving while living can also provide many attractive tax benefits. Not only can you reduce your income tax bill, you can save estate taxes by removing the donated funds from your estate.

Let's look very briefly at some of the options:

### Charitable remainder trust

You donate assets to a charity that provides you with a regular income stream in return. When the trust

term is over, the assets go to the charity. You receive an income tax deduction for the amount that is estimated to be donated to the charity.

### Charitable lead trust

This is the mirror image of the charitable remainder trust. Here you donate assets to a charity that receives the regular income stream. At the end of the trust term, the assets left over in the trust pass to your heirs. Again, you receive an income tax deduction for the amount that is estimated to be donated to the charity.

### Charitable gift annuity

You donate assets to a charity that promises to pay you a fixed amount regularly for life. Part of the annuity payments you receive are, of course, taxable. You again receive an income tax deduction for the amount that is estimated to be donated to the charity.

### Donor-advised fund

This choice has become more popular lately. You provide a lump sum to a third-party charitable fund and you receive an income tax deduction. The fund legally controls the money, but the donor can recommend how it is distributed and which charities benefit.

### Pooled income fund

You donate money to a charity that invests it in a special fund and pays you your share of the fund's earnings. When you die, you receive a tax deduction

for the value of what is left of your original investment that goes to the charity.

### Private foundation

Your legal team establishes your own charitable entity with funds from your family. This entity makes grants and exists to support your stated charitable mission and you therefore have much more control over the decisions of the foundation. However, private foundations can be expensive to run and have less favorable tax rules than public charities.

### Charitable distributions from IRAs

The Pension Protection Act of 2006, signed into law on August 17, provides an exclusion from gross income for an otherwise taxable distribution from IRAs (up to \$100,000 per year) that is paid directly from the IRA to a qualified charity, assuming that the IRA owner is 70½ or older and certain other conditions are satisfied. This is effective for the years 2006 and 2007 only.

If you are fortunate enough and charitably inclined to consider one of the above options, then be sure to discuss the most appropriate choices with your estate attorney, financial planner and tax advisors to properly coordinate your charitable intent with the maximum tax benefits.

George Papadopoulos is the owner of an independent Fee Only wealth management firm located in Novi, Michigan. For more information please visit [www.thefeeonlyplanner.com](http://www.thefeeonlyplanner.com).