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assets

a business, tax, and financial newsletter

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Specializing in Executive Compensation and Wealth Transfer Planning

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Donating Your Vehicles to Charity

Donating a vehicle is a great way to benefit a charity *and* reduce your tax liabilities. As with most tax benefits, however, Internal Revenue Service (IRS) regulations apply. Following the rules can help ensure that you receive a tax deduction for your good deed.

The charity you choose to donate your car to must be a ***qualified*** charitable organization. Most charities should be able to tell you if they are qualified organizations. In addition, IRS *Publication 78* lists most qualified organizations, which fall under nonprofit charitable, education, and religious categories. For more information about a particular charity, you may want to review their financial statements ahead of time. You are entitled to be informed of how your contribution will be used, as well as what percentage of the donation will be used for charitable purposes and what percentage will be used for administrative costs.

Taking Deductions

Determining the amount you can deduct for donating a vehicle to a charitable organization of your choice is dependent on several factors. For instance, your donation must be a **qualified vehicle**, which is defined as any motor vehicle primarily for use on public streets, roads, and highways; a boat; or an airplane. But, if the vehicle is part of a vehicle dealer's inventory and is for sale to customers, it would not be considered a qualified vehicle. To donate a nonqualified vehicle, review *IRS Publication 526* for the rules and limits that apply for property donations.

Generally, the amount you may deduct for a vehicle contribution depends upon what the charity does with the vehicle as stated in the **written acknowledgment** you receive from the charity for your donation. Typically, charitable organizations sell donated vehicles. So if the vehicle is sold, your deduction is limited to the gross proceeds from the sale. Keep in mind that many charities wholesale donated cars and may receive less than market value. In the event the charity retains the vehicle for its own use, the taxpayer is responsible for substantiating how the vehicle will be used and for how long.

A Closer Look

Prior to the 2004 reform, taxpayers could write off a car's full Blue Book value, regardless of the amount the charity actually received for the car.

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Intellectual Property and Your Estate

If you are an inventor, author, artist, or owner of a closely held business, you may have already taken steps to help protect your **intellectual property rights**. Certain types of intellectual property, such as business ideas, visual art, published or unpublished literary and musical works, inventions, computer programs, and designs of clothing and architecture, may be protected by law through copyrights, patents, and trademarks. When planning your estate, carefully consider these valuable assets to help ensure that they are transferred to your heirs according to your wishes upon your death.

Unique Concerns

Intellectual property is a unique asset, as it is an expression of an individual's knowledge and ideas. While not simply a thought itself, intellectual property is an intangible asset that is the direct result of work or trade. Just as no two individuals think alike, each estate that owns intellectual property must be handled differently. This area of estate planning is continually evolving, particularly as intellectual capital continues to gain significance throughout commerce in general.

Initially, it is important to determine if the intellectual property can be passed down to heirs. Certain types of intellectual property may have inherent **renewal** or **termination rights** through copyrights, patents, and trademarks. This can create questions as to *when* intellectual property rights become transferable. To address these concerns, some intellectual property owners choose a second executor to handle intellectual property issues in their estates. For example, an author may appoint a family member to oversee the general administration of his or her estate, as well as a second person or entity with experience in intellectual property to handle posthumous publications.

The valuation of intellectual property also poses a challenge to estate planning. The Internal Revenue Service (IRS) offers guidelines for some, but not all, types of intellectual property. For instance, the valuation of literary work is based on the copyright's future earnings potential reduced to its present value. Theoretically, this valuation methodology may also apply to other types of intellectual property. However, the question may remain as to how far into the future the potential for earnings exists. It may be possible to hire a professional appraiser to help determine the current value of intellectual property and how future trends may affect this value. But, it is also important to choose someone with expertise in the area of intellectual property.

Estate Taxation

Estate taxation affects individuals with substantial assets, regardless of the type of property that is included in his or her estate. However, intellectual property sometimes creates additional concerns. Just as an executor might be forced to sell a family vacation home solely to pay for estate taxes, a best-selling author may fear that, after his or her death, the future publication rights to an unpublished work will need to be sold for the same reason. If a large portion of an individual's assets is "intellectual" in nature, this can be a major concern.

Proper estate planning is pivotal in helping to make sure the decedent's wishes are able to be carried out. A **life insurance** policy purchased and owned by an **irrevocable life insurance trust (ILIT)**, if correctly structured and administered, can provide cash at death to help satisfy estate tax obligations. This use of life insurance can provide flexibility in an estate with only a small amount of liquid assets.

Also, if the intellectual property is of significant size, gifting some or all of the property to a recognized charitable organization at death can help to lower estate taxes. The estate of the decedent would receive a charitable contribution deduction against estate taxes based on the fair market value of the gift at death.

One Step at a Time

Estate planning for intangible assets, such as intellectual property, involves an array of complicated considerations. A basic understanding of the issues involved merely underscores the need for appropriate planning to help ensure the ultimate distribution of your assets according to your wishes. If you own intellectual property, be sure to consult with your estate planning team, including financial, legal, and tax professionals.

Putting Qualified Retirement Plans to Work

Many business owners welcome the tax benefits that come with qualified retirement plans. In addition to key tax breaks, these plans also help attract and retain key employees.

Favorable legislative changes to traditional qualified retirement plans over the past several years have made it easier for business owners and their employees to save more for retirement. Now, even employers with more challenging goals and objectives can find a plan to meet their needs.

Savings Incentive Match Plans (SIMPLEs)

A SIMPLE plan allows participants to contribute up to $12,000 ($14,500 for those individuals who are age 50 and older) to a SIMPLE IRA or SIMPLE 401(k) in 2013. Employer contributions, which are mandatory, can be either in the form of a 2% contribution to all eligible participants or in the form of a matching contribution that is generally 100% of the first 3% of compensation. Nondiscrimination testing is not required.

While not as flexible as a regular 401(k) plan, the SIMPLE IRA requires very little formal administration and better suits smaller employers satisfied with the minimum and maximum contributions that the plan allows. The IRA plan also benefits employers with family members on the payroll at lower salaries who may not be eligible for the same benefits from other types of plans.

Safe Harbor 401(k) Plans

These plans combine the flexibility of a traditional 401(k) plan with the option to avoid the burdensome nondiscrimination tests. Those who would benefit most from this plan include business owners or other highly-compensated employees who are subject to refunds of their 401(k) contributions due to failed nondiscrimination tests, or established employers who may already be making similar contributions to a plan.

The employer must make a 3% non-elective contribution to all eligible participants or a matching contribution that may obligate the employer to contribute up to 4% of compensation. These contributions must be 100% vested, but the employer avoids nondiscrimination tests that often preclude the owners and highly-compensated employees from making the maximum 401(k) contribution, which is $17,500 in 2013, or $23,000 ($17,500 + $5,500 "catch-up" contribution) if age 50 and older.

The 3% contribution to all eligible employees satisfies the top-heavy minimum profit sharing contribution often required by small plans. Along with the required contributions that satisfy the nondiscrimination testing, additional matching contributions or profit sharing contributions subject to vesting may also be made.

Age-Weighted Plans

An age-based or age-weighted profit sharing plan combines the flexibility of traditional profit sharing plans with the advantages of other types of pension plans, such as defined benefit plans that skew benefits in favor of older employees. In other words, both age and compensation are used as a basis for allocating employer contributions among plan participants.

This is just a sampling of the many options available to you with qualified retirement plans. If you're not getting everything you want out of your current retirement plan, consider whether a different type of plan would be more appropriate. ■

Insuring Your Income for Asset Protection

Just think about it for a moment. What would you do if you suddenly became ill or injured and lost your income-earning ability for an extended period of time?

For many of us, this is not an everyday concern, nor is it exactly dinner party conversation material. We rarely consider the possibility of becoming sick or sustaining an injury from an accident mainly because we never think it could happen to us. However, if a disability were to prevent you from working for an extended period of time, how would *you* maintain your family's current standard of living?

If you're employed by a larger company, your employer may provide **disability income insurance**. But, what if you are self-employed, or your company does not provide disability benefits? In either scenario, it would be up to *you* to make sure you are covered.

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donating your vehicles to charity

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Today, however, when you donate a vehicle worth more than $500, you may deduct only the amount the charity receives for the sale of the car. While the written acknowledgement will depend on what the charity does with the vehicle, certain information must be provided, including:

1. Your name and taxpayer identification number
2. The vehicle identification number
3. The date of the contribution, and one of the following:
   - a statement that no goods or services were provided by the charity in return for the donation, if that was the case
   - a description and good faith estimate of the value of goods and services, if any, that the charity provided in return for the donation, or a statement that goods or services provided by the charity consisted entirely of intangible religious benefits, if that was the case.

Since your deduction is limited to the gross proceeds from a sale, the following must also be included in the written acknowledgement:

- a statement certifying that the vehicle was sold in an arm's length transaction between unrelated parties
- the date the vehicle was sold, the gross proceeds received from the sale, and a statement that your deduction may not exceed the gross proceeds from the sale.

These vehicle donation rules only apply when the deduction exceeds $500. It is important to note that if all the required information above is not stated in the written acknowledgement, your deduction may not exceed $500.

Donating a car or other vehicle can be a wonderful gift to the charity of your choice, while providing you with an additional deduction for your taxes. However, abiding by the "rules of the road" can help smooth the way. Remember to check all vehicle donor responsibilities carefully as specified in various IRS online publications at www.irs.gov. Be sure to also consult your qualified tax professional for more information. ■

insuring your income for asset protection

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One way of protecting yourself and your family is by self-insuring, or keeping a *large* savings account. Even one year of disability could wipe out years of accumulated assets. Depending on the circumstances, the ramifications of not working for a period of time could eventually impact your business and jeopardize your family's lifestyle.

One way to help protect yourself from the financial implications of a sudden disability is to own an **individual disability income insurance** policy. This type of insurance is designed to meet your specific needs for quality, value, and cost. Be sure to consult with a qualified insurance professional to help determine an appropriate amount of coverage that can help preserve your assets. ■