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Specializing in Executive Compensation
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in this issue:

Taking Charitable Giving to Another Level

Did you know that you can gift a new or existing life insurance policy to your favorite charity? When properly designed, a **charitable life insurance** program may improve your overall financial situation and offer tax benefits, all while supporting a charitable cause.

Generally, there are three methods used to gift a life insurance policy to a qualifying charity: a **charitable bequest**, a **charitable gift**, and a **charity-owned policy**. Regardless of the strategy, policy ownership and **beneficiary** arrangements play an important role in the planning process. A consultation with a qualified legal professional can clarify your goals and expectations, provide information on the limitations on charitable deductions, and help you achieve the desired results, while avoiding unnecessary complications.

A Comparison of Gifting Strategies

A ***charitable bequest*** is ideal if you would like a charity to benefit from the proceeds of an existing life insurance policy but do not wish to surrender control during your lifetime. By changing the designated beneficiary to a desired charity, you retain the benefits of owning a policy because **incidents of ownership** still exist in the policy. There is no immediate income tax benefit for this type of charitable gift. Upon your death, however, even though the proceeds will be included in your gross estate, a charitable deduction for the full value of the policy proceeds is allowed.

If you wish to receive an ***immediate*** income tax deduction for a gift of an existing policy, consider a ***charitable gift***. By changing the beneficiary *and* ownership designations to a favorite charity, you can obtain an immediate gift tax charitable deduction for the policy. This deduction is based on the lesser of your cost basis or the value of the policy. You may also qualify for an income tax deduction.

If you make regular cash contributions to a charity, you may be able to leverage smaller gifts into a larger endowment. With a ***charity-owned policy***, a life insurance policy—where permitted by state law—is purchased by and made payable to a charity of your choice. Policy premiums are technically paid by the charity. To offset this cost, you make annual cash gifts to the charity, and as a result, you may be eligible to deduct a portion of your charitable donations from your income taxes. A gift tax charitable deduction

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Maintaining a Successful Banking Relationship

Your bank constantly evaluates you and your business. They examine your financial statements, but also notice subtleties, such as your current financial health and well-being.

Remember, the nature of the banking business is to *evaluate risk*. As a business owner, your bank needs to know that all is well with your personal and business finances. If you provide them with information or signals that suggest you are having financial difficulty (and you do nothing to make them think otherwise) you might as well ask them to turn down your next loan request, raise your interest rate, or call your loan.

Appearances Matter

Obviously, your bank wants to continue a positive relationship, and they look to you to provide assurance for doing so. The fact is that while you or your business may be prospering, you may be sending them conflicting information. The following are some signals that may attract attention:

- **Making the daily review lists.** Most banks review daily lists of checks drawn on uncollected funds, overdraft accounts, and large transactions. If your account regularly appears on one of these lists, it could suggest that you are out of cash or otherwise headed for trouble.

  They also review daily lists of past-due loans, loans with incomplete collateral documentation, and late financial statements. You may not consider late statements significant, but bankers do. They have learned that people are seldom late when they have good news. If you are slow to pay, banks may assume the worst.
- **Experiencing cash flow problems.** When you frequently request small loans to cover incidental expenses, banks may begin to assume that your business is not generating enough cash. Or, if you maintain high balances on your bank credit cards, a banker has the right to wonder why you are willing to pay high interest rates rather than pay off the balances. When your financial statement shows a large net worth and a small amount of cash, banks may worry that your debt service is exceeding your cash flow.
- **Changing your proposal.** When you change your mind too often in your dealings with a bank, you may leave a negative impression. One fairly common situation that bankers encounter is a customer coming to the bank with a request for a specific loan amount. The banker gets it approved, and the customer then says more money is needed. Thus, the loan officer may need to take a proposal back to the loan committee.
- **Becoming rough around the edges.** When bankers evaluate the risk of a loan, they take a long, hard look at the borrower's current condition. In loan committee meetings, it is important to make certain you are sending the proper message. If loan officers notice a drastic change in your appearance or behavior, they may justifiably wonder what is wrong.

In addition, if the company's building site looks run-down, with peeling paint or disheveled landscaping, someone from the bank may notice. To the bank, it may look like you are not paying attention to the details of running your business or that you are unable to pay for basic maintenance.

Reflect, Then Act

If any of these descriptions sound uncomfortably familiar, consider developing a strategy for implementing changes *now*. Maintaining a good relationship with your bank is crucial to executing your business's financial plan. Whenever possible, eliminate minor problems today that could become roadblocks on your path to success tomorrow.

It's Time to Conduct an Inventory

Try closing your eyes and listing your living room furnishings or the contents of your jewelry box. If you have trouble coming up with a complete tally, imagine how hard it would be after the stress of a fire or burglary.

Making a written inventory of your household valuables can be one of the best money-saving steps you can take. Property insurers are less likely to question claims based on such inventories, particularly if you submit photographs, videotape, receipts, or an appraiser's statement for valuable items. Your insurance company may even be able to give you a useful inventory form to fill out. Make sure to keep a copy of your inventory of household valuables with your insurance agent or in your safety-deposit box.

For the Record

Write down the date you purchased each item of value in your home, including its price. If an appraiser has estimated the value of any of your possessions, record the estimate and the date of the appraisal, making sure the appraisal is precise and explicit.

Describe each object in as much detail as possible. Be sure to include its age, brand name, size, model number, and other relevant facts. For example, for sterling silver tableware, note the manufacturer, pattern, and number of place settings. If your possessions are extensive and of particularly high quality, you may also consider videotaping and recording your verbal description of them.

In some categories of property, such as clothing, you may wish to group together a number of articles and attach a single estimate of value. Unless you have closets filled with designer originals, there may be no reason to complicate matters by describing your entire wardrobe.

Remember, of all the ways to record your property, the worst one is memory. Because, if you don't remember you own it, neither will your insurance company. ■

The Four Forms of Co-Ownership

Owning property with another individual or partner may create a complicated relationship. Due to the complexity of the situation, the way in which you take title or ownership must be determined *in advance*. Consulting with your legal professional can help you establish the form of ownership in such a way that will benefit you and your future heirs. The four forms of co-ownership, one of which will likely be better suited to *your* circumstances, are as follows:

Tenancy in common. This is a form of co-ownership often used between unrelated individuals. Tenants in common may own unequal shares of property. For example, one person could own a one-fourth interest and another could own a three-fourths interest as tenants in common. If the shares of the co-owners are not specifically designated, they are presumed to be equal or proportionate.

Tenants in common are said to hold "undivided" interests with the other co-owners. This means each co-owner owns a proportionate interest in the entire property. So, if two people are equal tenants in common to a parcel of land, it is inaccurate to identify one as owning the west half and the other as owning the east half. Rather, both co-owners own a one-half interest in the entire parcel.

Joint ownership. This specific type of co-ownership has unique legal characteristics. Unlike a tenancy in common, where co-owners may possess unequal interests, the legal interest of each joint owner is equal to the interest of every other joint owner. If there are three joint owners, each owns an equal, undivided, one-third interest in the entire property. However, this proportionality does not necessarily apply to the tax consequences of joint ownership.

The most important legal component of a joint ownership is the **right of survivorship**, which means that when a joint owner dies, the surviving joint owners automatically succeed in ownership of the deceased joint owner's interest in the property. For example, if there are two joint owners and one of them passes away, the surviving joint owner automatically owns the entire property. If there are three joint owners and one of them passes away, each of the two surviving joint owners automatically becomes one-half owner of the entire property. The survivorship rights of a joint owner take precedence over the claims of the deceased joint owner's

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taking charitable giving to another level

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for the full value of the annual cash gift is allowed. This strategy creates a "win-win" situation for you and the recipient charity.

Know the Insurable Interest Laws

Regardless of your gifting strategy, be aware of the insurable interest laws in the state where the policy was originally purchased. Although the donor makes contributions to the charity in cash, which is then used by the charity to pay premiums on the life insurance policy, the life insurance policy insures the donor's life. Insurable interest is typically considered to be an interest based on family, marriage, or financial obligation; consequently, the charity's insurable interest in the policy may be called into question, thereby jeopardizing the tax benefit and placing the policy proceeds in the donor's estate. However, a case for insurable interest can be anticipated and incorporated into the trust documents.

The Best of Both Worlds

If you are charitably inclined and are seeking tax advantages, the gifting of life insurance can offer unique planning opportunities. The potential for charitable income tax deductions or an estate tax reduction, combined with supporting a worthy cause, may make this type of gift appropriate for you. Usually, such charitable life insurance gifting strategies can be accomplished with few legal challenges and little publicity. Careful planning, with the guidance of a qualified legal professional, can help ensure that your charitable life insurance program is structured according to your wishes.

the four forms of co-ownership

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creditors. This form of ownership is common among married couples.

Tenancy by the entirety. This form of co-ownership is recognized by many states as a variation of joint ownership that applies only to spouses. A tenancy by the entirety generally has the same legal characteristics of a joint ownership with a few additional features. Normally, the protection against the claims of creditors that applies to joint tenancies at the death of a joint tenant is also available against the lifetime creditors of the tenant by the entirety.

Community property applies to married couples who own property in any of the following nine states, which are sometimes referred to as community property states: Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington, and Wisconsin. Regardless of whose name is on any ownership papers, such as a deed, any property accumulated during the marriage is "owned" by both parties. This includes cash, real estate, and any other acquired assets.

Remember, splitting property, for any reason, can be a difficult task. Therefore, the decision to purchase property with another party requires careful consideration. Consult your legal and tax professionals for the most suitable course of action to take.