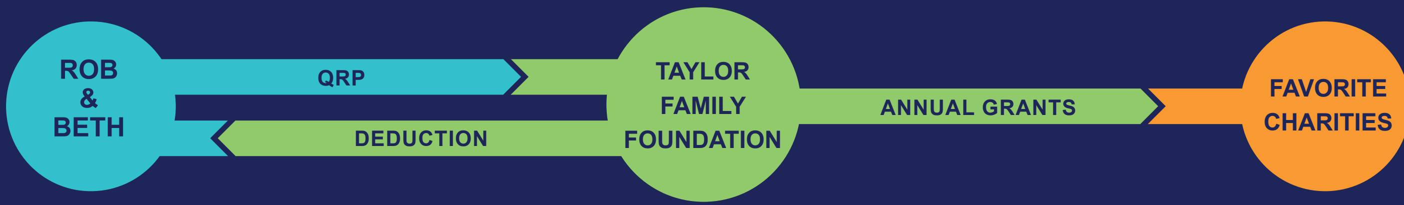
Rob & Beth Taylor

Donor-Advised Fund Avoids Capital Gain on QRP and Endows Charitable Giving



For the past several years, Rob & Beth Taylor have made annual gifts totaling $5,000 to the children's museum, the zoo, and the Red Cross. The Taylors (both age 62) enjoy a comfortable lifestyle with income of $150,000. Their liquid investments are valued at $2,000,000. Within their portfolio is $100,000 of QRP (Qualified Replacement Property) they bought after selling company stock to an employee stock ownership plan (ESOP) several years ago. When they sold to the ESOP, their basis was $20,000, which they rolled over to the QRP to defer capital gain taxes. The Taylors are ready to sell the QRP, but don't want to pay $15,400 in capital gain taxes. The Taylors don't rely on the 2% yield of the QRP stock and would like to ensure their continued support of their favorite charities.

The Taylor's financial advisor recommends creating a Donor-Advised Fund with the Renaissance Charitable Foundation to endow their annual giving, thus freeing up for other purposes the $5,000 they normally give from current income. Their advisor explains by transferring the QRP to a Donor-Advised Fund, they will receive an immediate $100,000 income tax deduction, which would reduce the Taylors' Federal tax burden by $33,000. After the transfer, the QRP will be sold with the proceeds re-invested in a balanced portfolio designed to produce an average yield of 6%.

Next year, the Taylors will not be writing personal checks to the zoo, museum, or Red Cross, but instead will facilitate grants from The Taylor Family Foundation at the Renaissance Charitable Foundation. If the fund generates more than a 6% yield, her giving could be increased to $6,000. This excites the Taylors particularly when they realize that the list of donors in the museum's annual report next year will include a gift from "The Taylor Family Foundation".

QRP Basics

Owners of C-Corporation stock who sell their company shares to an Employee Stock Ownership Plan (ESOP) can avoid capital gain on that sale to the extent they use the proceeds to buy "Qualified Replacement Property"or QRP. The QRP tax deferral is found in §1042 of the Internal Revenue Code. The seller has a specific 15-month window around the sale to the ESOP to reinvest the sales proceeds in stocks and bonds of U.S. companies.

Benefits of Ryan SCRUT	
Tax Deduction	$100,000
Capital Gain Tax Avoided	$15,400
Endowed Gifts	$6,000 +/-

Assumptions:

- Marginal Federal and state income tax rate of 36%.
- Marginal Federal and state capital gain tax rate of 19.25%.
- Deduction may be limited. Consult a tax advisor.

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