Which Charitable Giving Strategy is the Best Fit for You?

For many, the holidays are a time for giving back—whether by donating to a favorite charity or helping out a family member. Before you make a donation or gift, however, it's important to choose the right strategy, paying close attention to potential tax and legal implications.

Charitable Giving

If there's a charitable organization you'd like to donate to, be sure to take the time to consider the charitable giving vehicle you'll use to make your gift. Let's look briefly at some of the options.

Outright gifts. Outright gifts of cash or property provide charities with immediate resources. Be sure to keep your receipts or bank records to validate any income tax deductions you wish to claim. Keep in mind that you may need a professional appraisal to qualify for a tax deduction on certain noncash contributions.

Donor-advised funds. A donor-advised fund is a charitable giving vehicle managed by a public charity for the purpose of distributing funds to other charities. When you contribute to a donor-advised fund, you can advise the charity on the grants it makes, as well as take advantage of possible tax deductions. Be aware, however, that there may be a minimum donation amount, and administrative fees may cut into the funds available for grants.

Charitable remainder trusts. With this type of trust, the donor receives income from the trust for his or her lifetime, the lifetime of another person, or a period of up to 20 years. At the end of the specified term, the remaining trust assets are distributed to a charitable beneficiary. The greatest benefit of a charitable remainder trust is that you can take advantage of immediate tax benefits while continuing to utilize the assets, as you may deduct the present value of the charitable remainder interest. On the downside, charitable trusts tend to be complex to set up and usually require legal and administrative support.

Charitable gift annuities. A charitable gift annuity is a split-interest gift made directly to a charity that provides you, your spouse, or a family member with fixed income payments for life. The charity typically ends up with about half of your donation, while you get an immediate tax deduction and some guaranteed income. Keep in mind that an annuity is a contract between you and the charity, and your return isn't guaranteed by the government.

Private foundations. A private foundation is a charity established by an individual, family, or corporation. Although it offers donors a great deal of control over their gifts, a private foundation can be costly to administer, and it must adhere to a strict set of rules designed to ensure that it carries out its charitable purpose.

Bequests. If you wish to give to charity posthumously, you may make bequests by way of your will, trust provisions, or beneficiary designations. Although bequests offer simplicity and are easy to set up, they are not income tax deductible during your life.

Gifting to Family Members

Giving back doesn't always mean giving to charity. Gifting to family members can be just as rewarding, and it can be an effective way to transfer wealth while reducing or avoiding taxes. Here are several common strategies for gifting to family members:

- **Making an outright cash gift.** For tax year 2019, you may gift up to $15,000 to any individual without tax consequences. (This amount increases to $30,000 for married couples). This limit will remain the same for tax year 2020. If you’re sharing gifts with your spouse, or you’d like to gift more than this amount to one person, you’ll need to file a gift tax return using IRS Form 709.
- **Paying college tuition or medical bills directly.** If you’d like to pay a family member’s expenses directly to a school or health care provider, the $15,000 limit does not apply. Plus, you’re still free to give the individual a separate tax-free gift of up to $15,000.
- **Contributing to a 529 plan.** With this strategy, you can contribute to a relative’s qualified education expenses while paring down your own estate. Contributions to 529 plans grow tax deferred, and withdrawals for the beneficiary’s education are tax free at the federal level (and usually at the state level, too). Additionally, 529 plans are eligible for a special exemption that allows you to gift up to five years’ worth of annual exclusion contributions (i.e., up to five times $15,000, or $75,000, per person per year) without using any estate and gift tax exemption. You will need to file IRS Form 709 to document the transaction.

With all the options available, choosing the best way to give to charity or family members can seem overwhelming. Don’t hesitate to reach out to your financial advisor to discuss various strategies and select an option that makes sense for you, your family, and your financial situation.

This material has been provided for general informational purposes only and does not constitute either tax or legal advice. Although we go to great lengths to make sure our information is accurate and useful, we recommend you consult a tax preparer, professional tax advisor, or lawyer.

A Year-End Financial Planning Checklist

As 2019 draws to a close, it's time to begin organizing your finances for the new year. To help you get started, we've put together a list of key planning topics to consider.

Savings and Investments
Revisit your retirement contributions. Review how much you're contributing to your workplace retirement account. If you're not taking full advantage of your employer's match, it's a great time to consider increasing your contribution. If you've already maxed out your match or your employer doesn't offer one, boosting your contribution could still offer tax advantages. Now is also a good time to ensure that your portfolio allocation remains in line with your objectives.

Take stock of your goals. Did you set savings goals for 2019? Realistically evaluate how you did, and think about your goals for next year. If you determine that you are off track, we'd be happy to help you develop and monitor a financial plan.

Health and Wellness

Spend your flexible spending account (FSA) dollars. If you have an FSA, those funds may be forfeited if you don’t use them by year-end. (Some FSAs offer a 2.5-month grace period or the ability to carry over up to $500 into the next year; check with your employer to see if those options are available.) It’s also a good time to calculate your FSA allotment for next year, based on your current account excess or deficit.

If you’re not using an FSA, evaluate your qualifying health care costs to see if establishing one for 2020 would make sense.

Taxes, Taxes, Taxes
Manage your marginal tax rate. If you’re on the threshold of a tax bracket, deferring income or accelerating deductions may help you reduce your tax exposure. It might make sense to defer some of your income to 2020 if doing so will put you in a lower tax bracket. Accelerating deductions, such as medical expenses or charitable contributions, into the current tax year (rather than paying for deductible items in 2020) may have the same effect. In addition, reviewing your capital gains and losses may reveal tax planning opportunities—for instance, harvesting losses to offset capital gains.

Here are a few key 2020 tax thresholds to keep in mind:

• The 37 percent marginal tax rate affects those with taxable incomes in excess of $518,400 (individual), $622,050 (married filing jointly), $518,400 (head of household), and $311,025 (married filing separately).
• The 20 percent capital gains tax rate applies to those with a taxable income in excess of $441,450 (individual), $496,600 (married filing jointly), $469,050 (head of household), and $248,300 (married filing separately).
• The 3.8 percent surtax on investment income applies to the lesser of net investment income or the excess of modified

adjusted gross income over $200,000 (individual), $250,000 (married filing jointly), $200,000 (head of household), and $125,000 (married filing separately).

Consider the benefits of charitable giving. Donating to charity is another good strategy for reducing taxable income. If you'd like to help a worthy cause while trimming your taxes, it's worth exploring your charitable goals and various gifting alternatives.

Make a strategy for stock options. If you hold stock options, now is a good time to make a strategy for managing current and future income. Consider the timing of a nonqualified stock option exercise. In light of your estimated tax picture, would it make sense to avoid accelerating income into the current tax year or to defer income to future years? And don't forget about the alternative minimum tax (AMT). If you're considering exercising incentive stock options before year-end, have your tax advisor prepare an AMT projection to see if there's any tax benefit to waiting until January of the following year.

Plan for estimated taxes and required minimum distributions (RMDs). When considering your taxes for 2019, be sure to take any potentially large bonuses or a prosperous business year into account. You may have to file estimated taxes or increase the upcoming January payment. If you're turning 70½, you'll need a strategy for taking RMDs from your traditional IRA and 401(k) plans.

Adjust your withholding. If you think you may be subject to an estimated tax penalty, consider asking your employer (via Form W-4) to increase your withholding for the remainder of the year to cover the shortfall. The biggest advantage of this is that withholding is considered as having been paid evenly throughout the year instead of when the dollars are actually taken from your paycheck. You can also use this strategy to make up for low or missing quarterly estimated tax payments.

Proactive Planning

Review your estate documents. To help ensure that your estate plan stays in tune with your goals and needs, you should review and update it on an ongoing basis to account for any life changes or other circumstances. If you haven't done so during 2019, take time to:

• Check trust funding
• Update beneficiary designations
• Take a fresh look at trustee and agent appointments
• Review provisions of powers of attorney and health care directives
• Ensure that you fully understand all of your documents

Check your credit report. It's important to monitor your credit report regularly for suspicious activity that could indicate identity theft. Federal law requires that each of the nationwide credit reporting companies (Equifax, Experian, and TransUnion) provide you with a free copy of your report every 12 months, at your request.

Get professional advice. Of course, this list is far from exhaustive, and you may have unique planning concerns not covered here. As you prepare for the coming year, please feel free to reach out to us to discuss the financial issues and deadlines that are most relevant to you.

Whatever your planning may entail, we wish you a happy, healthy, and prosperous 2020!

Divorce: Managing Details in the Midst of Devastation Can Make a Big Difference Long Term

Sarah Ruef-Lindquist

By Sarah Ruef-Lindquist, JD, CTFA

Divorce rates exceed 50% for first marriages in many parts of the U.S., and 67% for second marriages. Yes, it happens often, but it is rarely easy, no matter how amicable.

The emotional turmoil of the process can be overwhelming. Many people liken it to the grief of losing a parent or child. At least in theory, it is the death of a marriage. It is also a time of financial turmoil. Debts and assets can become weaponized to gain advantage. Decisions that are incorporated into a court decree can have lasting – if not permanent –

effects. Having legal representation to advance a client’s interests is important, as is having a financial advisor who can help them be informed about decisions involving debt allocation, property division, including assets like retirement plans and social security options. These choices can have lasting, long-term value for a person going through divorce.

For instance, a party divorcing may want to not only change their will, but change their beneficiary designations on things like bank accounts, life insurance contracts or other accounts. In Maine, a new Probate Code effective Sep. 1, 2019 has changed the way beneficiary designations naming a spouse are treated if a divorce occurs after the designation was created, but before the death of now former spouse who did not change that designation. Maine law now treats those designations as revoked by virtue of the divorce. In the past, designations of spouses who became ex-spouses were still honored. It is still prudent to make these changes to reflect the intent of the account holder. A financial advisor can facilitate the necessary paperwork.

Divorced spouses also have choices about future Social Security elections. If a marriage lasted 10 years, and the parties have been divorced for two, the unmarried former spouse can claim a benefit that is 50% of their former spouse’s benefit if it is higher than their own benefit. This does not impact the former spouse’s benefit (even if they have remarried), and they won’t even necessarily know that it has been elected by the former spouse claiming it. A financial advisor can assist with navigating decisions like this.

These are just a few of the ways financial advisors can help with the financial decisions that need to be made in the course of a divorce and following. Consider adding a financial advisor to your team if you are facing divorce to help navigating the many decisions to be made for your immediate needs and the future. A financial advisor can work with your attorney to help you make the best decisions for your particular situation.

Fact vs. Fiction: 529 Savings Plans and Coverdell Education Savings Accounts

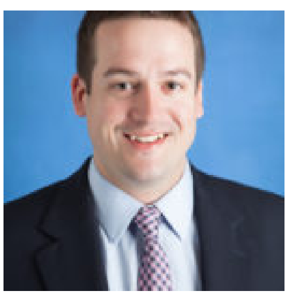
Sarah Ruef-Lindquist, JD, CTFA

Fiction: The money I put into a college savings account will hurt my child's chances of receiving financial aid.

Fact: Funds that a parent puts into a 529 savings plan or Coverdell Education Savings Account that are owned by the parent have a low impact on a student's financial aid package. When these types of accounts are owned by the parent, only a portion of the balance—up to 5.64 percent—is factored into the student's Expected Family Contribution on the Free Application for Federal Student Aid (FAFSA). This is a much lower rate than the 20% that is assessed on student-owned assets.

You should be aware, however, that distributions from a grandparent-owned 529 plan will be considered untaxed income to the student, with 50 percent of the distribution included in the FAFSA. So, if grandparents do own a 529 plan for the benefit of the child, they may want to consider reserving those funds for the last two years of college, as the FAFSA uses the prior-prior year's tax return to complete the income questions.

Allen Financial Featured Speakers at Maine Land Trust Network Conference



Abraham Dugal

Allen Financial advisors and wealth managers Abraham Dugal and Sarah Ruef-Lindquist, JD, CTFA, were speakers for a session at the Maine Land Trust Network's day-long Land Conservation Conference held earlier this spring in Topsham at the Middle School.

Dugal and Ruef-Lindquist spoke about issues surrounding how to grow endowments through planned giving, when donors seek to provide long-term support through gifts that can be more complex than cash or marketable securities.

Land trust staff and board members gather annually for the opportunity to network, share organizational best-practices and learn from experts in fields that include conservation, land preservation, marketing and finance. It is produced by the Maine Coast Heritage Trust.

Sarah Ruef-Lindquist, JD, CTFA

Dugal and Ruef-Lindquist spoke about the policy foundations and recognition practices they view as necessary to have fiscally-sound and successful planned giving programs. Their backgrounds – hers as an attorney, financial and philanthropic advisor, trust officer; his as an investment manager and both as board members – contribute to their unique perspectives as advisors and fiduciaries and how they approach potential gifts through clients' estate and financial planning.

Given the unprecedented intergenerational transfer of wealth taking place in the United States, and the projections for gifts to non-profit organizations during the next 30 to 40 years in the trillions of dollars, organizations are well-served to pay greater attention to this area of resource development to build their long-term financial sustainability.

Ruef-Lindquist Featured Speaker at Mount Desert Island Nonprofit Alliance

Sarah Ruef-Lindquist, JD, CTFA

Allen Financial advisor and wealth manager Sarah Ruef-Lindquist, JD, CTFA, was the featured speaker at the June monthly meeting of the Mount Desert Island Nonprofit Alliance at the Garland Farm. MDINA members work collaboratively to address operational issues and coordinate event schedules for the many Mount Desert Island non-profit organizations.

Participant groups who were represented at the meeting included the Schoodic Institute, Friends of Acadia, Seal Cove Auto Museum, MDI Hospital, Abbe Museum and Jessup Memorial Library.

After a brief tour and background presentation from Garland Farm personnel, Ruef-Lindquist spoke about the policy foundations, recognition practices and outreach necessary to have fiscally-sound and successful planned giving programs and endowment funds. Members submitted questions in advance of the meeting ranging from how to begin a planned giving program to how to begin a conversation with a donor about planned giving.

Given the unprecedented intergenerational transfer of wealth taking place in the United States, and the projections for gifts to non-profit organizations during the next 30 to 40 years in the trillions of dollars, organizations would be well-served to pay greater attention to this area of resource development to build their long-term financial sustainability, Ruef-Lindquist said. It is an area in which she has worked as a consultant, philanthropic advisor or trust officer for more than 20 years.

As Financial Advisors, We are Not Afraid to Use the F-Word: "Fiduciary"

Several years ago there was a lot in the news about a fiduciary rule that was going to change how advisors worked; the imposition of a fiduciary standard of behavior meant that advisors would have to make decisions and recommendations for their clients in their clients' best interests, and not their own.

Sarah Ruef-Lindquist, JD, CTFA

Otherwise, advisors could charge commissions and earn fees on investments and other financial products that were perhaps questionably in their client's best interests, but were definitely in the advisor’s best interests.

‘Fiduciary’ means essentially making decisions based on the best interests of someone beside yourself. While this isn’t a foreign concept to most people, it is not necessarily human nature. After all, survival instincts naturally tend toward self-preservation, not altruism. However, as advisors, we are in the unique position of helping others with decisions that require not only objectivity to understand available options, but professionalism and expertise to advise and recommend the best course of action for a particular individual’s circumstances.

Even though the fiduciary rule was not ultimately enacted as part of the regulatory scheme for financial advisors, some of us have always made it our practice to only make recommendations in our clients’ best interests. It is easier to do that when your income is not based on commissions from sales. Fee only planners are compensated solely by the client with neither the advisor nor any related party receiving compensation that is contingent on the purchase or sale of a financial product. Fees are usually paid through the investment management of one or more portfolios based on a percentage of their value, or in some cases for consulting work done on an hourly basis.

A question to ask yourself if you have a financial advisor would be are they acting in a fiduciary capacity for you?

Doing Well by Doing Good? The

Increasing Practice of Socially Responsible Investing

There are many ways to be well. Most people consider wellness to include physical health and well-being. Some would also consider emotional, financial and spiritual wellness as worthy of their attention, and devote time and resources to addressing issues to promote those types of wellness.

Sarah Ruef-Lindquist, JD, CTFA

For many investors, this approach aligns with their desire to support business that are "doing good" in the world either in terms of what social or environmental issues they are addressing, and perhaps in terms of how they govern themselves and treat the employees within their companies.

In recent years, greater emphasis has been placed on the intersection of financial wellness and emotional or spiritual wellness. The world of investing has begun to focus attention on ways in which capital can be invested to support businesses that are promoting social or environmental welfare, and/or govern themselves in a way that promotes diversity and inclusion of those historically marginalized in corporate leadership, either by virtue of gender, race or other suspect criteria.

What has come to be known as Socially Responsible Investing (SRI) or Environmental Social Governance investing (ESG) involves using criteria like environmental, social, governance and employment practices to choose what investments will be held in a portfolio. According to Commonwealth Financial Network's website:

Sometimes referred to as environmental, social, and corporate governance (ESG) investing, Socially Responsible (SRI) is a broad-based strategy in which **corporate responsibility** and **societal concerns** are factored into investment decisions. In short, an SRI strategy seeks to **maximize both financial return and social good.**

Companies that deal in tobacco, gambling, fossil fuels, weapons, or involve child labor, employee discrimination, or lack board diversity are the kinds that get attention in SRI/ESG screening. Mutual funds will screen out companies that don't measure up in those areas.

This has broad appeal for many investors, but for some time there have been concerns that one could sacrifice market performance for social benefit. For example, removing fossil fuel stock from a portfolio could exclude some of the top performing companies during certain market periods. That is a difficult choice to make. Over time, the index that measures the performance of mutual funds that screen for SRI companies has shown that the gap has narrowed significantly between the general mutual and exchange-traded fund world and SRI-screened funds.

According to a US News and World Reports June 7, 2018 blog post entitled *Socially Responsible Investing Delivers*:

Research and performance history imply that socially responsible investors receive superior absolute returns and risk-adjusted performance, while also addressing sustainability concerns. Dollars invested in sustainable and socially responsible strategies provide companies with better ESG metrics easier access to capital, which reduces the cost of equity and supports higher stock prices.

https://money.usnews.com/money/blogs/the-smarter-mutual-fund-investor/articles/2018-06-07/socially-responsible-investing-

delivers-for-investors
So when you're thinking about your own wellness, consider whether a more socially responsible approach to investing makes sense for you. Would knowing that your investments were supporting companies working to improve the environment, or address social causes, or include women and minorities in executive leadership add value to your experience as an investor? As with all investment choices, you should consult with your financial advisors before making any changes to your portfolio or investment strategy.

Socially responsible investing involves the exclusion of certain securities for nonfinancial reasons. This may result in the investor forgoing some market opportunities that may have been available to those not subject to such criteria. There is no guarantee that any investment goal will be met.

Planned Giving Topic of Workshop for Local Non-Profits

Allen Financial of Camden advisors and wealth managers Abraham Dugal and Sarah Ruef-Lindquist, JD, CTFA, were the featured speakers for United Midcoast Charities at Allen's offices in Camden in early February. They spoke about issues surrounding how to grow endowments through planned giving, when donors seek to provide long-term support through gifts that can be more complex than cash or marketable securities.

Participant groups at the presentation included Trekkers, Wayfinder Schools, Watershed School, Waldo CAP, Belfast Soup Kitchen, Speaking Place, Pen Bay YMCA, Ripple Initiative, Rockland District Nursing Association, Ecology Learning Center, Knox County Homeless Coalition, Window Dressers, AIO, Big Brothers Big Sisters, and Coastal Children's Museum.

Dugal and Ruef-Lindquist spoke about the policy foundations and recognition practices they view as necessary to have fiscally-sound and successful planned giving programs. Their backgrounds – hers as an attorney, financial and philanthropic advisor, trust officer – his as an investment manager – and both as board members contribute to their unique perspectives as advisors and fiduciaries and how they approach potential gifts through clients' estate and financial planning.

Given the unprecedented intergenerational transfer of wealth taking place in the United States, and the projections for gifts to non-profit organizations during the next 30 to 40 years in the trillions of dollars, organizations are well-served to pay greater attention to this area of resource development to build their long-term financial sustainability.

Making the Case for a Three- to Six-Month Reserve Fund

The news has been full of stories about the fallout from the federal government furlough while congress and the administration iron out a budget for 2019.

Sarah Ruef-Lindquist, JD, CTFA

Federal employees missing two paychecks as of this writing have reported that are not able to take a planned vacation, close on a house purchase or car, pay rent or mortgage, buy heating fuel or food, attend a loved one’s funeral, and the list goes on and on.

For people living paycheck to paycheck, life can become difficult very quickly with just one missed paycheck. Their plight reminds us all of advice someone may have given us as we were getting our financial lives started: “Always have 3 to 6 months of living expenses set aside, just in case!” but yet how many of us do?

You don’t need to be a federal employee to face this kind of interruption in your income. A lay-off, illness that keeps us from working, illness of a loved-one who needs our care are situations that can all prevent us from getting a pay-check and put our financial lives in jeopardy. If you are injured on the job, even worker’s compensation will usually only pay a percentage of your regular income. How would you make up the difference?

For those who are age 59 ½ or older, there is the option of dipping into retirement funds and paying any resulting income tax without an early withdrawal penalty, although we would always prefer to see those funds left alone that are in “qualified accounts” that are tax deferred. But for the rest of us, it would mean seeking deferral of loan or rent payments, forbearance from creditors, borrowing, and likely a significant curtailing of our lifestyle.

But it’s not too late to start saving for that possibility. Make a point of putting at least 5 or 10% of each paycheck into a savings account, and if this can be done by your payroll service automatically, all the better. Once you get into the habit, you will find the account will grow and when you prepare your tax return each year, you can revisit whether those funds should remain in your “reserve” or if some may go into retirement funds and grow tax-free. And of course, paying off your credit cards every month is a good habit, too. An interruption in income will be much less painful if you can cover bills until your income resumes again.

As always, consult your financial and tax advisors before making any decisions concerning your investments or financial plans to be sure they fit within your overall, long-term financial and estate planning goals.