



to the impact of potentially higher income taxes on their giving goals. Over about 15 years, the same charitable gift could be halved if it's subject to income taxes. However, few are willing to make an absolute transfer to charity (or a charitable remainder trust) today to reduce that burden. The solution could be a PPVA.

PPVAs allow charitably inclined individuals to maintain full ownership and broader investment options for earmarked assets throughout their lifetime, while deferring the income taxation of investment gains on those assets. A client can make deposits or take withdrawals (for personal consumption or charitable gifting), adjust the asset allocation and/or change the beneficiary designation at any time.

The net result, if the PPVA investment account is left to charities or foundations, is that all the assets pass undiminished by income and estate taxes. "Optimizing Charitable Gifts," this page, shows the values passing to charity for an initial allocation of \$5 million in a PPVA versus a taxable account. Simply by changing the location of the assets from a taxable account to a PPVA investment account, the family can multiply their potential charitable legacy assets (or substantially reduce the wealth needed to fund a specific large gift). In addition, many public charities give donor recognition credit for PPVA investment account beneficiary designations, which are fully revocable if the account owner is at least 65 years old.

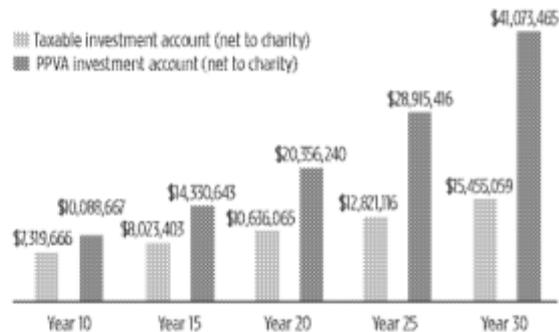
**Practice tip:** Name the charity as the primary beneficiary of the PPVA investment account, or, if the client hasn't completely committed to leaving the PPVA to the charity, consider naming the charity as the contingent beneficiary of the PPVA. This could allow any of the primary beneficiaries (for example, a surviving spouse or children) to disclaim any part of the PPVA investment account assets to charity.

### U.S. Clients Residing Abroad

Many advisors with U.S. clients living abroad are struggling with the complications of how best to structure those clients' investments. Those clients typically can't access U.S. onshore investments, because they reside abroad. Offshore investments, while readily available, don't provide the necessary U.S. reporting and might

## Optimizing Charitable Gifts

*By Year 25, the PPVA account nets more than double the taxable account*



Assumes 1.5 percent of fund management fees and an 8 percent return after fund management fees on a \$5 million investment in a taxable account and a private placement variable annuities account; 75 percent of realized gains are taxed at ordinary income rates; and no withdrawals are made before age 59½. Ordinary income tax rate is assumed to be 40.7 percent in Year 1 and 48.7 percent thereafter. Capital gains tax rate is 20.7 percent in Year 1 and 29.1 percent thereafter. Assumes that the investment management fees aren't tax deductible in the taxable investment account due to the 2 percent of adjusted gross income threshold for itemized deductions.

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not be efficient for local tax purposes. If that weren't bad enough, new FATCA and other requirements for U.S. persons with investments abroad make this process more complicated.<sup>2</sup>

A PPVA investment account, properly structured, could access U.S. onshore investments and hold them without current U.S. taxation. In many places around the world, the PPVA itself could completely defer taxation on the investment portfolio while the individual resides in that country. And, distributions could be deferred until the client returns to the United States, making taxation simpler. But, perhaps most important, the PPVA investment account could hold offshore investments and should be exempt from foreign financial institution reporting requirements.

**Practice tip:** The PPVA investment account also can operate effectively for a non-U.S. person planning to reside temporarily in the United States. Offshore investments could be held while the client is a U.S. resident