

# FOUNDATION ADVISOR



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## 2006 Highlights:

- Assets of the Fairfield County Foundation exceeded \$26 million.
- Our diversified investment portfolio achieved a 13.9% increase due to interest, dividends, realized and unrealized gains, net of investment fees.
- The Fairfield County Foundation paid out \$2,139,444 in grants.
- 23 New funds were established in 2006.
- The Fairfield County Foundation established their own Endowment Fund.

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## Uncovering Hidden Assets, Addressing Unspoken Needs: What a Form 1040 can provide.

Many clients wish to give to charity but believe they may be too illiquid to do so. Jointly analyzing tax return schedules can reveal hidden streams in the rock, and enable clients to carry out their charitable wishes.

The income tax return is a powerful tool for financial fact-finding. Traditionally, financial advisors have used the Form 1040 to reveal planning opportunities for clients, says Diahann Lassus, CFP®, of Lassus Wherley & Associates in New Providence, New Jersey. "We can help clients become more tax efficient, review family gifting opportunities for clients with high incomes, and structure portfolios with the proper mix of tax-deferred and taxable vehicles."

What's more, the types of assets hiding in the Form 1040—securities, real estate, private partnerships—make ideal assets for donor advised funds, says Mark Coffey, J.D., CFP®, an advisor with John E. Sestina and Company in Columbus, Ohio.

"Many clients own assets that have been in the family for years," he says. "The original basis may be difficult to establish or the asset could have greatly appreciated in value, representing a real tax burden to heirs." By gifting appreciated assets to charity, both the client and the charity do good works while avoiding capital gains taxes.

### Reading Into a Form 1040

Advisors use the tax return as a charitable giving aid in two ways. First, the Form 1040 Schedule A, examined over a period of at least three years, reveals a client's giving history. Are they charitably inclined? Do they give in the form of cash, securities, or property? Some clients may not disclose information they take for granted, for example, that they tithe to their church. Such information provides an excellent opening for a discussion about philanthropy and giving goals.

Secondly, reviewing income tax returns can uncover hidden assets. Clients aren't always aware of what assets they own, especially when they are in a long-held portfolio. Many clients have held a certain security for so long that they don't even bother to open the statements (they simply send unopened statements to their accountant at tax time).

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## Scholarships Available —Let Your Clients Know

Do you have any clients with college students or seniors in high school?

While you are working with your clients this tax season, remind them to apply for scholarships through the Fairfield County Foundation. The Foundation provides scholarships in a variety of fields and for a variety of schools. A complete list, as well as the scholarship application, is available on our website at [www.fairfieldcountyfoundation.org](http://www.fairfieldcountyfoundation.org). The deadline to submit applications for several scholarships is March 31, 2007.

For the 2006-2007 academic year, the Foundation awarded \$680,650 in scholarships, and the Grant Munro affiliated fund awarded \$257,250 in scholarships.



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*“By front-loading their gifts into the fund, they were able to get the tax deduction all at once, but still parcel out their gifts yearly, as they had always done.”*

## Uncovering Hidden Assets (continued)

Form 1040 Schedule B shows interest and ordinary income from dividends. If the long-held assets are passed on to heirs, the step-up in basis on long-held stocks is likely to be high; the taxable gain on the asset is calculated based on the fair market value at the time of death, not the fair market value at the time the asset was purchased. Highly appreciated assets can be ideal charitable gifts for both the charity and the donor, both of whom avoid capital gains charges, Coffey says.

Coffey uses donor advised funds extensively, both through the Columbus Jewish Foundation, where he sits on the board, and the larger Columbus Foundation. “The donor advised fund is my vehicle of choice for clients who wish to give over \$10,000,” he says. “Most people give to multiple charities anyway, but this way they only have to keep track of one receipt, which simplifies record-keeping.”

Advisors typically don’t manage real estate and other illiquid assets, but they often make ideal gifts for donor advised funds or income-generating charitable remainder trusts, says Ross Levin, CFP®, of Accredited Investors Inc. in Edina, Minnesota. Form 1040 Schedule E discloses income from rental properties and royalties, indicating the existence of certain types of property. The Schedule E also reveals shares in limited partnerships and S corporations, which many community foundations and other charities are now accepting as charitable donations.

### Bolstering Client Relationships

Reviewing these hidden charitable opportunities can help advisors strengthen their client relationships, says Bill Sternberg, professional advisor development officer at The Minneapolis Foundation. He has worked closely with Levin and other advisors on innovative solutions for their clients. “Typically, financial advisors manage only a small portion of a client’s total assets and tend to focus only on those marketable assets,” Sternberg says. “But a client’s largest asset may be a closely held company, a piece of real estate or other illiquid assets for which the advisor collects no fees. In some cases, it is these assets that may be the most appropriate charitable asset. By helping clients gift these complicated assets, advisors may not profit in the short term, but they tremendously boost the value-add and strength of the relationship.”

Levin helped one charitably inclined couple set up a donor advised fund with stocks that had realized huge gains. “They needed to diversify out of those holdings and they knew which types of charities they wanted to support,” he says. “By front-loading their gifts into the fund, they were able to get the tax deduction all at once, but still parcel out their gifts yearly, as they had always done.”

The Form 1040 can also reveal fully depreciated real estate generating unneeded cash flow and stock dividends with no or almost no sales indicating a long-term buy-and-hold type of person who may need to diversify, says Ann Terranova, CFP®, of Union Financial Partners in San Francisco, California.

Some assets and potential gift opportunities are *not* revealed on a 1040, Terranova says, so advisors should not rely on these forms exclusively. Assets not generating taxable income won’t show up on a tax form but often make good candidates for charitable giving. These include valuable artwork or jewels, which could be donated to a museum; or secondary property, such as a beach house that does not generate rental income. Other information that cannot be gleaned from a tax form includes the basis of marketable securities and the current fair market value of real estate.

Reviewing income tax returns is just one element in comprehensive financial planning, but may be a good way to uncover hidden assets that could be converted to valuable charitable gifts. A long-term model can show clients that they have enough money to live comfortably, care for their family, deal with any emergencies, and still give freely to the charities they care about.

*Eva Marer is a freelance writer based in New York City. Reprinted with permission.*

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