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Wharton Executive Education Program



Charitable Trusts

By Brian C. Tillotson

Since we are coming up on the season of giving, I thought I would review Charitable Trusts. A study recently showed that charity giving in 2006 was 20% higher than the previous year. Despite concerns regarding retirement funding, retirees are becoming more and more philanthropic.

There are several options for gift giving that are also prudent financial decision. First, and the best known, if you give cash (cash or checks) to any charity, consider giving a highly appreciated stock instead. If you bought 200 shares of XYZ stock for \$10 and now it is worth \$20, you will owe \$300 in taxes if you sell (assuming 15% long-term capital gains tax, higher if a short-term gain). If you give that stock to a charity, you have a charitable donation of \$4,000 and no tax due on the gain. Furthermore, you can buy that stock back at a later point with a new cost basis. So at the end of the day, you own the same stock with a stepped up cost basis.

Second, the Pension and Protection Act of 2006 provided that distributions of IRA funds can be made directly to a qualified charity. The IRA owner must be 70 ½ at the time of the direct transfer. A maximum amount is \$100,000 per IRA owner. The distribution can satisfy the RMD (required minimum distribution) for the IRA owner.

Third, and the strategy growing the most in popularity, is Charitable Remainder Trusts (CRT). Actually, technically these are Charitable Uni-Trust and were created in 1969 after the US Congress passed a bill to encourage more giving to not-for-profit organizations.

CRT's are irrevocable trusts that actually provide for and maintain two sets of beneficiaries. The first set are the **income beneficiaries** (you and, if married, a spouse). Income beneficiaries receive a set percentage of income for your lifetime from the trust.

The second beneficiaries are the **charities you name**. They receive the principal of the trust after the income beneficiaries pass away.

While a CRT is an irrevocable trust, you and your spouse may change the charitable beneficiaries at any time. Under certain conditions, you may even serve as trustees of the CRT. As trustees, you can maintain full investment control of the assets inside the CRT.

Because their assets are destined for a charity, Charitable Remainder Trusts do not pay any capital gains taxes. These taxes can range from 10% to 20% of an asset's growth in value. For this reason, CRTs are ideal for assets like stocks or property with a low cost basis but high appreciated value.

Funding a CRT with highly-appreciated assets (like real estate) allows you to sell those assets without paying any capital gains taxes. Since CRTs have a charitable intent and do not have to pay capital gains, the full value of any assets transfer to the trust (and thus, to your family and favorite charity).

The amount of income to come out of the CRT depends upon the payout percentage that you choose and the amount of income your assets generate while inside the CRT. However, the IRS

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SAVE THE DATE

HOLIDAY PARTY
TUESDAY,
 **DECEMBER 11th**

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Cover Story

states that, at a very minimum, the CRT must distribute at least 5% of the net fair market value of its assets. If you don't need the income one year, you may elect to defer income through a "makeup provision." However, the CRT's net distributions must eventually equal 5% to be considered valid by the IRS.

Many clients use Charitable Remainder Trusts to augment their current retirement plan. By setting one up in your peak earning years, you can make contributions to the CRT in the form of zero coupon bonds, non-dividend paying growth stocks, or professionally-managed variable annuities.

By letting the CRT grow without taking income from it during the early years, the CRT can begin making payouts to you when you retire. These payouts can include make-ups for any shortfalls in income you did not receive earlier. Unlike IRAs or 401(k) plans, there are no limits on how much you can contribute.

A CRT is considered "outside of your estate" by the IRS. Because of this, you may end up saving as much as **48 cents of every dollar** you move to the CRT. Plus, you are usually not limited in how much you can contribute.

CRTs, because they benefit a charity, also qualify you for an income tax deduction. The amount of your deduction is the present value of the remainder interest to the charity.

Your current deduction also depends on the type of property you contribute, as well as the type of charity you name as a beneficiary.

Average deductions normally fall in the range of 20-50% against your adjusted gross income. Any deductions not used in the year of contribution may be carried forward for the next five years.

For more information on combining strategies, contact me.

Key Dates

November 12

Veterans Day

November 19

Lunch & Learn Petroleum Club

November 22

Thanksgiving Day

December 11

Holiday Party Petroleum Club

December 25

Christmas Day

January 1

New Year's

January 15

Martin Luther King Day

January 19

Royal Chef Referral Dinner

February 15

President's Day

Service Station

You Have Questions?!? We Have Answers?!?

By Tiffanie Johnson

Address Change? Set up IRA Distributions? Research Checks? Process IRA Contributions? Help Calculate Required Minimum Distributions? Deposit and Withdrawal Funds? Set up Electronic Access to your Accounts? Dividend Distributions? Statements?

Have any of these questions crossed your mind and you weren't sure exactly who to call on?

Allow me to reintroduce myself... I am Tiffanie Johnson, Brian's Service Assistant, your helpline to these questions and many more. I may not always have the answer at the moment you call. However, after spending an extensive three days in Overland Park at VSR I have become familiar with the faces that will have the answers. This has made me a tremendous help to Brian, and I know I will be a tremendous help to you!

Please do not hesitate to call on me no matter how small or big you think your question may be at 972-894-0100.

Securities Advisory Services offered through VSR Financial Services, Inc. A Registered Investment Adviser and Member FINRA/SIPC, Virtus Wealth Management is Independent of VSR.

Insurance Information

Long-Term Care (Part I) – The Importance of Planning

By Karen E. Spence

No one wants to think about a time when they might need long-term care. So planning ahead for this possibility often gets put off. Most people first learn about long-term care when they or a loved one need care. Then their options are often limited by lack of information, the immediate need for services, and insufficient resources to pay for preferred services. Planning ahead allows you to have more control over your future.

Planning ahead for long-term care is important because there is a good chance you will need some long-term care services if you live beyond the age of 65. About 60 percent of people over age 65 require some services, and the likelihood of needing care increases as you age.

Planning ahead helps you understand what service options are available in your community, what special conditions may apply for receiving services, for example, age or other eligibility criteria, what services cost, and what payment options – public and private – apply. Having this information helps ensure you will have a range of options when you need long-term care, and makes it more likely that you will have more choice and control over where and how you receive services.

Planning ahead is important because the cost of long-term care services often exceeds what the average person can pay from income and other resources. By planning ahead, you may be able to save your assets and income for uses other than long-term care, including preserving the quality of life for your spouse or other loved ones. With planning, there is a greater likelihood of being able to leave an estate to your heirs, because you are less likely to use up your financial resources paying for care.

Planning ahead also means less emotional and financial stress on you and your family. It can provide a way to involve your family in decisions without depending on them to bear the entire burden alone.

Finally, for many people, one of the most important advantages of planning ahead is to ensure greater independence should you need care. Your choices for receiving care outside of a facility and being able to stay at home or receive services in the community for as long as possible are greater if you have planned ahead.

Virtus Wealth Management is here to help you plan ahead for long-term care as part of your overall financial plan. Stay tuned for additional articles in this three part Long-Term Care series: Part II - Costs of Care and Part III - Private Financing Options.

Recipe

Tiffanie's Tasty Treat

Chicken Spaghetti

1lb of chicken breast

1lb of Angel hair pasta

1 can of Campbell's condensed Cream of Chicken soup

1 can of Campbell's condensed Cream of Mushroom with Roasted Garlic soup

1lb of Velveeta cheese

Directions

Boil chicken breast in a large pan adding a pinch of salt to the water. Remove chicken when done. Boil noodles in remaining chicken broth, drain after done. Cut chicken into small, bite-size pieces. Cut chesses into small chunks and melt in sauce pan.

Combine in large pan: chicken, noodles, cheese, and soups.

Mix well and serve... Serves 4

We welcome your suggestions for your Recipe section of your newsletter!

Please forward any suggestions to Tiffanie Johnson

by email:

tiffaniejohnson@virtuswealth.com

Or by phone:

972-894-0100

On A Personal Note

- Karen's oldest son, Will (9), is playing kid pitch baseball for the first time this season, and he has turned out to be quite the pitcher. Karen is happy to report that he has only accidentally hit one batter so far.
- Prestyn was voted as the Vice President of the Student Council for Shadow Ridge Middle School. Along with being on the National Junior Honor Society and dancing 15 hours a week she is quite a busy girl.
- Austen, Tiffanie's son, has become quite the little speller! Into the first 6-weeks of 1st grade he is learning 10 five-letter words a week!

We thank you for your patronage. Without you we would not exist. It has been very satisfying over the years to watch as you reach your financial goals and knowing that we had some small part.

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Marketing Matters

Virtus Wealth Management Referral Program

By Amy Tillotson

Virtus Wealth Management has a new twist to our referral program, and we are very excited to get this off and running. Here's how it works. For every qualified referral that you provide to Virtus Wealth Management we will put your name into our monthly drawing for a very special referral gift. The drawings will be held on the last day of the month, and our first drawing will be held on December 31st! The special gift for the month of December will be a **one night stay at the Gaylord Texan Hotel** (or a hotel of your choosing). It is important to note that if your referral becomes a client, no matter if you win the monthly drawing or not, you will have the opportunity to pick a thank you gift from a selection in our offices.

For the first drawing in December we are going to put in the names of each client who has referred someone to us over the past year! We will publish the winners for each month in the quarterly newsletters. Some of our best clients are referred from our best clients! Good luck to everyone, happy referring!