

Concentrated Stock and Pooled Income Funds

Presented by 4Rivers Wealth Management

Owners of concentrated stock positions may gain significant benefits from contributing a portion of their shares to a pooled income fund, which can provide a means to:

- Create a lifetime income stream
- Receive an income tax deduction
- Avoid capital gains
- Establish a charitable legacy

What Is a Pooled Income Fund?

A pooled income fund (PIF) is a trust created by a public charity to receive contributions of cash and property (e.g., stocks, bonds, real estate) to be pooled together and managed as one large investment portfolio. When donors make contributions, they receive a charitable income tax deduction equal to the present value of the donated remainder interest. They also receive participation units in the PIF in proportion to the contributions made.

Throughout a donor's life, the PIF makes distributions (typically quarterly) of all income earned by the portfolio. When a donor dies, the remaining assets pass to charity in proportion to the number of participation units held.

The tax character of the income received by the donor is determined by how the income was generated within the portfolio. PIF income distributions commonly contain interest and dividends; capital gains are usually not included as distributable income unless provided for under state law.

Benefits of Funding a PIF with Concentrated Stock

A PIF may provide the following benefits to the owner of a concentrated stock position:

- A lifetime income stream based on the rate of return of the underlying PIF portfolio (This may replace and exceed dividends received from holding the concentrated position.)
- An immediate income tax deduction equal to the present value of the remainder interest to pass to charity
- The elimination of capital gains taxation associated with shares contributed to the fund
- The professional management of the PIF portfolio
- No up-front costs or continual administration fees for the donor (unlike with a charitable remainder trust)
- The removal of contributed stock from the donor's taxable estate

Example: Contributing Shares to a PIF*

Ms. James, age 70, holds a large position in XYZ Corporation which she acquired throughout many years of employment with XYZ. Her tax basis in XYZ is \$10 per share, but the stock currently trades at \$50. Ms. James would like to use some of her XYZ stock to support charity, but she depends upon the 4-percent dividends that she receives annually from the shares.

At her financial advisor's recommendation, Ms. James contributes stock valued at \$500,000 to a PIF.

The lifetime annual income Ms. James receives from the PIF may replace the dividend income. In addition, when she contributed the shares to the PIF, Ms. James received a charitable income tax deduction of \$267,050. Over five years, the income tax deduction may mitigate the tax associated with the income received from the PIF or any additional income sources. At Ms. James's death, the value of her participation units will pass to the sponsoring charity for use in furthering its mission.

*This is a hypothetical example and is for illustrative purposes only. No specific investments or investment vehicles were used in this example. Actual results will vary. There can be no assurance of a dividend yield or positive performance from a PIF. Past performance is no guarantee of future results.

Considerations

In the right situation, a PIF can be an excellent way for an owner of a concentrated stock position to reduce the risk of owning the shares, provide tax efficiency and a potential lifetime income stream, and satisfy charitable planning goals.

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.

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