642(c) Pooled Income Funds: Unique Advantages to new Charitable Compensation Plans-Part One

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IRC 642(c) Plans, referred to as "Pooled Income Funds" offer unique ways for participants to utilize tax favored deferred compensation. While Pooled Income Funds would not be considered a "new" tax planning opportunity, the current economic environment is quickly transforming Pooled Income Funds into an attractive charitably-focused deferred compensation option.

Traditionally, a Pooled Income Fund is a trust that is established and maintained by a public charity. Individual donors pool their donations in the Fund and the Fund then assigns each donor "units of participation" based on that individual donor's contributions to the Fund. At least annually, the Fund distributes the net investment income to the donors based on their units of participation for the duration of the donor's life. After the donor's death, the Fund's assets attributable to that donor may be used by the charity for its charitable purposes.

Pooled Income Funds offer several advantages to participants, but the most important advantages include an immediate tax deduction, lifetime income payments, and the satisfaction of charitable goals. While the lifetime income payments and charitable goal satisfaction represent the traditional advantages of a 642(c) Pooled Income Fund, the current financial and economic landscape presents a new and unique ability for participants to take advantage of the immediate taxable deduction available to new Pooled Income Funds.

While Pooled Income Funds offer these unique advantages to participants, they are not traditionally utilized in a way that maximizes the flexibility that the Internal Revenue Code offers to Pooled Income Funds. For example, traditional Pooled Income Funds don't maximize the deductions available to participants. Furthermore, traditional Pooled Income Funds come with limitations on: the assets the Fund will accept, the permitted income to beneficiaries, and the charitable use of the Fund's remainder. Therefore, potential donors rarely use traditional Pooled Income Funds.

As opposed to a traditional Pooled Income Fund, a New Pooled Income Fund offers these potential donors greater flexibility and, most importantly, the ability to maximize the immediate tax deduction available to donors.

In our next article, we'll discuss in detail how New Pooled Income Funds work, the specific advantages of a New Pooled Income Fund and how a potential donor can reap those benefits. If you have questions regarding the potential advantages of Pooled Income Funds, contact a Foster Swift business & tax attorney.