



## Have You Considered Charitable Gifting?

*Could it make the world a better place? Could it make sense, financially?*

**A gift to charity may also help to improve your tax or financial situation.** Here's a brief look at some popular options for charitable gifting, with potentially significant tax advantages.

**Charitable Remainder Trusts (CRTs).** Taxpayers with highly appreciated assets, such as stock portfolios or real estate holdings, are often hesitant to sell those assets and reinvest the proceeds because of the capital gains taxes linked to the sale. A CRT may give them a solution to this problem.

In exchange for transferring highly appreciated assets into a CRT, you may get: a) income payments from the CRT for a period of years or the rest of your life, b) a tax deduction for the present value of those assets, and c) tax-free compounding of those assets while they are held within the CRT. If the CRT is properly implemented and structured, the highly appreciated assets will eventually be sold from within the trust, exempt from capital gains taxes. Another plus: assets held within a CRT are usually held outside of a person's taxable estate.<sup>1</sup>

After you die, whatever assets remain in the CRT will go to the charity (or charities) of your choice. What about your heirs? You can structure a CRT in conjunction with an irrevocable life insurance trust (ILIT) so that they are not disinherited; they can receive the proceeds from the life insurance policy.<sup>1</sup>

A charitable remainder annuity trust (CRAT) pays out a fixed income each year, representing a fixed percentage of the initial fair market value of the asset(s) placed in the trust. In a charitable remainder unitrust (CRUT), income from the trust can increase as the trust assets gain value with time; the annual payout to the donor represents a fixed percentage of the beginning-of-the-year values of said asset(s).<sup>2</sup>

**Charitable lead trusts (CLTs).** This is the inverse of a CRT. You transfer assets to the CLT, and it annually pays a percentage of the value of the trust assets to a charity. At the end of the trust term, the remaining assets within the trust go to a non-charitable beneficiary (which could be your heirs or a family trust). By creating a CLT, you could markedly reduce your potential gift or estate tax.<sup>1</sup>

**Charitable gift annuities.** Universities often promote these charitable gifting agreements to alumni and donors. Basically, you (or you and your spouse) donate money to a university or charity in exchange for a guaranteed lifelong income stream. You may claim a partial charitable tax deduction for the donation. After you pass away, the remaining balance of your donation goes to the university or charity.<sup>3</sup>

**Pooled income funds.** In this variation on the charitable gift annuity, the assets you donate are unitized and “pooled” with the assets of other donors. Essentially, you are buying “units” in an investment pool, like an investor in a mutual fund. The rate of return on your investment (that is, your share of the net income paid out of the pooled income fund) varies per year.<sup>4</sup>

Pooled income funds often appeal to wealthier donors who don’t have a pressing need for fixed annuity payments. You get an immediate income tax deduction for a portion of the gift, which may be spread over a few consecutive tax years. You can also put more assets in a pooled income fund over time, whereas a charitable gift annuity is based on one lump sum gift.<sup>4</sup>

**Donor advised funds.** A DAF is like a charitable savings account. You make one or more irrevocable contributions of personal assets to it, and it invests and manages those assets. Each year, the DAF makes a percentage of its assets available for grants or other programs, and you advise the fund how to donate that money. DAF contributions are tax deductible under the Internal Revenue Code. Assets in a DAF are positioned to grow tax free.<sup>5</sup>

**Scholarships.** These can be created at a school in your own name or in memory of a loved one, and you can set the criteria. Commonly, you and a financial professional can work directly with a school to create one.

**Life insurance and life estate gifts.** If you have an unwanted (or inadequate) permanent life insurance policy that could end up increasing the size of your taxable estate, you might want to explore gifting that policy to a charity or naming a charity as its primary beneficiary. Designating a charity as the beneficiary will route the death benefit to the charity and reduce your taxable estate by the amount of the death benefit. Gifting the policy also accomplishes this, plus it offers you a current income tax deduction for the policy’s fair market value (i.e., cash value). Some policies with face values of \$1 million or more now have riders that allow 1-2% of the face value to be paid to a qualified charity; often, these riders will not impact the death benefit.<sup>7</sup>

Life estate gifts are an interesting option allowing you to gift a paid-off home or property to a charity, university, or other non-profit, even while you live there. You may take a tax deduction based on the value of the remainder interest of the property, avoid capital gains tax that could result from its sale, and live on the property for the rest of your life.<sup>8</sup>

**Give carefully.** Remember that some charitable gifts are irrevocable. If you are thinking about making one, remember that the amount of your tax deduction could vary depending on the kind of assets you contribute and your individual tax situation. Trusts are drafted by licensed attorneys who will charge a fee for the service. Be sure to consult qualified financial, legal, and tax professionals for more information before you decide if, when, and how to give.

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### **Citations:**

- 1 - [fidelity.com/viewpoints/personal-finance/charitable-giving-that-gives-back](http://fidelity.com/viewpoints/personal-finance/charitable-giving-that-gives-back) [5/1/18]
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- 3 - [investopedia.com/terms/c/charitable-gift-annuity.asp](http://investopedia.com/terms/c/charitable-gift-annuity.asp) [9/5/18]
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- 5 - [nptrust.org/what-is-a-donor-advised-fund](http://nptrust.org/what-is-a-donor-advised-fund) [9/5/18]
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