

Charitable Gifting Vehicles – The Basics

The following outline describes the advantages and disadvantages of the most popular gifting options: charitable remainder trusts, charitable lead trusts, donor advised funds, pooled income funds, and charitable gift annuities. While each vehicle serves a slightly different function, there are some consistent themes to consider as you review your options:

- Do you have more than the 2005 estate tax lifetime exclusion of \$1,500,000 and therefore need to reduce your estate?
- Do your heirs need this inheritance?
- Do you need a tax deduction? Immediately or in the long-term? It is important to remember that only charitable donations which total less than 50% of your adjusted gross income are deductible, so you need to carefully consider your donation in relations to your income.
- Have you already identified the charity that will receive your gift?
- Do you have assets to donate with a low cost basis right now, or do you expect significant appreciation in the future?

By identifying your needs before you begin to search for a suitable charitable gifting vehicle, you have a much better chance of serving all parties involved.

Charitable Remainder Trust

- A charitable remainder trust (CRT) is taxpayer-created trust agreement in which you transfer assets into a tax-exempt trust that can be manipulated later by the individual. Income can be a constant payment (“annuity trust”) or it can be a constant percentage of the annual account valuation (“unitrust”).
 - **For You:** An established income payment for your life expectancy or a predetermined period of years.
 - **For Charity:** Financial security from your gifting the remainder of the trust assets upon your death or after the predetermined time frame.
- A CRT is a good choice if you:
 - Want to maintain control over the investment of the assets.
 - Need an immediate tax deduction.
 - Are unsure which charity you want to receive your gift. You have the rest of your lifetime to determine a recipient.
 - Have assets with low cost basis with which to fund the trust because you will avoid having to pay the capital gains tax. But your income tax deduction is based on the present, fully appreciated value of the asset.
 - Need to reduce your estate.
 - Have no children. The charity becomes your heir.
 - Need regular income during your lifetime. This is a secured annuity with a guaranteed payment.
 - Combine the CRT with an Irrevocable Life Insurance Trust (ILIT), which will “replace” the assets going to the charity by giving something of similar value to your heirs. The premium for the ILIT can be funded with the tax savings from the contribution into the CRT. This strategy is very effective because an ILIT will not be considered part of your estate, thereby decreasing your estate tax liability.
- A CRT might not be best if you:

- Desire simplicity. You will need to find a lawyer who will craft a trust agreement. This is not necessarily expensive, but there are fees involved.
- Your beneficiaries need the assets once you pass away and you have not combined your CRT with an ILIT.
- You are giving the income stream to a third party and it will total more than \$11,000 per year. Any amount above that will incur a gift tax liability.

Charitable Lead Trusts

- A charitable lead trust (CLT) provides the charity with an income stream over a set amount of time (or your life expectancy) with the balance going to you or your heirs at the end of the term.
 - **For You:** The opportunity to pay gift or estate tax on an asset now rather than having your heirs pay the tax later.
 - **For The Charity:** An immediate stream of income derived from the asset until the end of the term.
- A CLT is a good choice if you:
 - Have property that is likely to increase significantly in value before your death, donating it will allow you to avoid capital gains taxes.
 - Do not need an income stream from this asset but would like to retain it for your heirs.
 - Are more concerned with reducing estate taxes than income taxes.
 - Have a trustee (such as a corporate trustee, a trusted family member or friend) in mind to whom you will give control over investment of the assets.
- A CLT might not be best if you:
 - Anticipate giving to more than one charity. With this form of donation, you can only benefit one charity at a time.
 - Are donating assets that are earning income. You will be taxed upon the trust's income, even if all of it is paid out to the charity.
 - Need a large income tax deduction. Your deduction will be based upon the charity's expected rate of return, the duration of the trust, and IRS tables used in the calculation.
 - Are likely to be in a higher tax bracket in later years, you will pay taxes upon any income generated by the trust.

As a point of interest, the charitable lead trust was the vehicle used by Jacqueline Kennedy Onassis in her estate plan.

Donor-Advised Funds

- A donor advised fund (DAF) is similar to setting up a family foundation without the red tape. To establish the fund, simply open an account, make your initial contribution, make the investment selection for the long term, and you have all the time you need to decide which charitable organization(s) will receive your donation(s).
 - **For you:** Simplicity. There is virtually no paperwork required and no need to hire an attorney.
 - **For charity:** All the usual monetary benefits without the responsibility of making investment decisions.

- A DAF is a good idea if you:
 - Seek immediacy in your tax deduction. If it is the last week of the year and you need a quick deduction, you need only open an account to create a DAF.
 - Prefer to manage the investments yourself. For amounts above \$250,000, TMG can manage your DAF for you through Schwab Institutional.
 - Want to leave a lasting legacy by naming successors who will continue to select grant recipients for generations to come.
 - Have not selected a charity (or a group of charities) at the time of your original gift.
- A DAF might not be best if you:
 - Need tax deductions on a regular basis. Your initial contribution to set up the fund cannot be spread out over a period of years.
 - Need a source of income or any further return from donated assets.

Pooled Income Funds

- A pooled income fund (PIF) operates like a mutual fund with multiple donors who contribute and receive income for life.
 - **For You:** An immediate tax deduction and fluctuating annual income based upon the PIF's performance.
 - **For Charity:** Opportunity to plan for the future as they anticipate receiving your donation when you pass away.
- A PIF is a good choice if you:
 - Have selected a charity that has established a pooled income fund.
 - Desire peace of mind that the money is separate from the charity until the gift of principle at your death.
 - Need a tax deduction, although accrued interest is subject to income tax.
 - Want to reduce your estate immediately
 - Have low cost basis assets to donate.
- A PIF might not be best if you:
 - Want the charity to receive the money while you are living.
 - Need a steady income stream.
 - Want to maintain control over investment selection.

Charitable Gift Annuities

- A charitable gift annuity (CGA) is a contribution to a charity that yields an annual fixed income stream for life. These vehicles are heavily marketed by charitable organizations and are generally only used by unsophisticated senior citizens.
 - **For You:** An opportunity to donate while receiving an annual portion back.
 - **For The Charity:** An opportunity to receive immediate funds and utilize the money during your lifetime.
- A CGA is a good choice if you:
 - Would like an income stream for life.

- Need an immediate tax deduction.
 - Prefer a simple giving technique with no need for a lawyer to craft a trust.
 - Are willing to relinquish control of your assets.
 - Need to reduce your estate.
- A CGA might not be best if you...
 - Need to consider your overall financial picture. Those who market these products rarely take your comprehensive financial plan into account.
 - Need the streaming income. ***A charitable annuity program is an unsecured promise to pay you.*** While most established charities have good reputations for returning annuities over time, it is still an unsecured contract between you and the charity.
 - Want your contribution to fund a particular function. You have no input regarding the way the charity uses your funds.