4 LONG TERM WAYS TO GIVE TO CHARITY

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Americans have a long history of contributing their resources to charitable causes. According to the Charities Aid Foundation, 56% of Americans had donated money or volunteered their time during 2017, which places the United States fifth among 140 nations.[1] The majority of these donations are made directly to charities during a person's lifetime (e.g., annual gifts) or are bequeathed to charities upon death within a will or trust.

PLANNED GIVING: AN ALTERNATE WAY TO DONATE

In contrast to traditional methods that typically involve budgeting for one-time annual donations directly to charity, "planned giving" involves making significant gifts to charities that are arranged in the present to be granted in future years. Several well-known planned giving strategies allow one to formally structure the timing and amount of charitable donations to help achieve various financial and tax planning goals. These goals may include receiving an immediate tax deduction for future grants, and/or receiving a stream of income in return for an up-front contribution. The following are examples of four common planned giving strategies, each with different nuances and key benefits that can meet the goals of a donor.

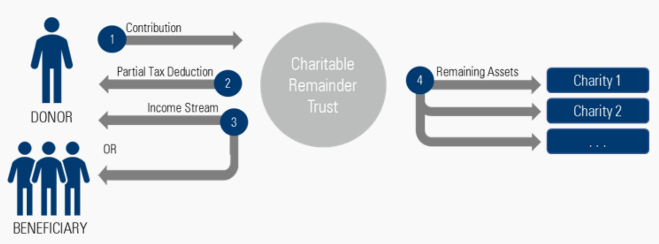
DONOR ADVISED FUND: PROVIDES FLEXIBILITY AND EASY ADMINISTRATION

A Donor Advised Fund (or DAF) is a separate charitable account held in an individual donor's name but managed by a financial organization or charity. An individual can make charitable contributions to a DAF and receive an immediate income tax deduction (or an immediate estate tax deduction if set up upon death). One of the key benefits of a DAF is that it gives the donor the flexibility to later choose the charity, grant amount, and grant date. It also allows for the ability to make multiple grants to any number of charities in future years even though the full tax benefit was received immediately in the year of contribution to the DAF. The DAF manages the administrative transfers and recordkeeping for all grants that are made each year, which simplifies the charitable giving process for the donor.

CHARITABLE REMAINDER TRUST: PROVIDES AN INCOME STREAM FOR A LARGE CONTRIBUTION

The Charitable Remainder Trust (or CRT) is a trust set up to benefit any number of charities in the future while providing current income payments to the donor or a donor's family member. The income beneficiary can receive these payments for life or a term of up to 20 years. Upon death or the expiration of the trust term, the remaining assets are distributed to the named charity or charities. (See Figure 1.)

Figure 1. Charitable Remainder Trust



Once established with an estate attorney, a CRT becomes irrevocable, which means that the primary terms of the trust cannot change. However, it may be possible for the trustee to subsequently change the named charities if allowed by the trust document. The initial contribution to the CRT enables the donor to claim an immediate income tax deduction (or an immediate estate tax deduction if set up upon death) based on a calculation of the expected assets that will remain in the trust at the end of the term. Due to the complexity and costs of these trusts, the minimum funding amounts should typically be at least $100,000 to $200,000.

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CHARITABLE GIFT ANNUITY: PROVIDES A LIFETIME INCOME STREAM FOR A COMMITMENT TO A SPECIFIC CHARITY

Like a CRT, a Charitable Gift Annuity (or CGA) provides regular income payments to the donor or other beneficiary, with the remaining balance paid to a specific charity upon the death of the recipient. (See **Figure 2**.)

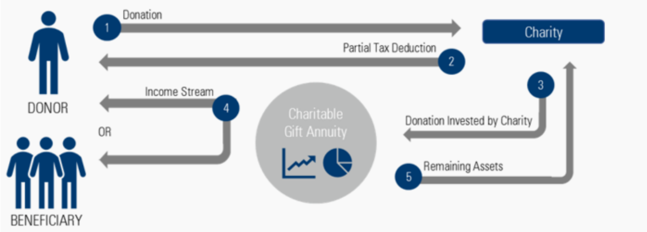

Figure 2. Charitable Gift Annuity

A CGA also provides the donor an immediate income tax deduction. However, this strategy does not require the creation of a trust document, as it is considered a contract, or an annuity agreement made directly with the named charity. Because of this, the CGA is more straightforward to administer and is ideal for smaller gift amounts between $10,000 to $100,000. Unlike a CRT, which gives full control of the donated funds to the named trustee, a CGA gives total investment and administrative control of the gift to the named charity that sponsors it; therefore, future income payments are based on the expectation that the charitable organization will continue to be in existence for years to come.

CHARITABLE LEAD TRUST: PROVIDES A LARGER IMMEDIATE TAX DEDUCTION FOR A MULTI-YEAR PLEDGE TO CHARITY

Another strategy that many consider to be the opposite of the CRT is a Charitable Lead Trust (or CLT). In effect, this irrevocable trust enables one or more charities (rather than the donor or a family beneficiary) to receive the regular income payments for the trust term. Then, at the end of the trust term, the remaining assets are distributed to a named beneficiary which may be the donor or a family member. (See Figure 3.)

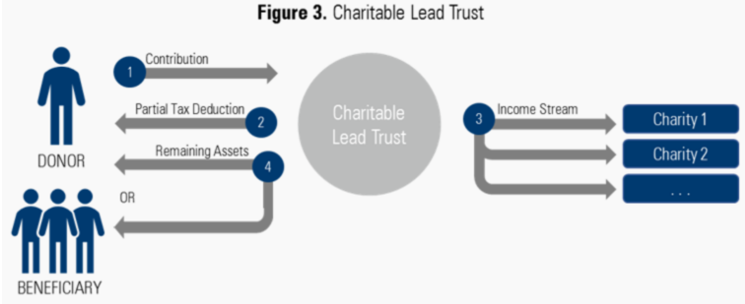

Figure 3. Charitable Lead Trust

Typically, however, CLTs are structured to include the income from the trust (to the charity) as taxable income to the donor, thereby qualifying the present value of these payments for an immediate income tax deduction for the donor (or an immediate estate tax deduction if set up upon death). Typically, the immediate tax deduction for a CLT will be larger than with a CRT. This gives a donor the opportunity to take a more significant tax deduction in a year when they expect to be in a high-income tax bracket followed by years in a lower tax bracket. The CLT strategy is particularly useful for a donor that would like to make a multi-year pledge to a charity, while accelerating the deduction into the initial year of formation.

WHAT TO CONSIDER WHEN DETERMINING THE IDEAL STRATEGY FOR YOU

Any of these previously mentioned planned giving strategies enable one to provide help and assistance to any number of charitable causes, while also achieving various financial and tax planning goals. In addition to a donor's overall charitable intent, the ideal strategy should be based on several factors including the size of the gift, the size of the estate, current or projected income tax brackets, income needs, and the degree of flexibility or simplicity desired. It is important to keep in mind that planned giving strategies are meant to be meaningful and long-term commitments to charitable causes for those with greater charitable intent.

If you have any interest in determining which strategy may be the best fit for you, or if you have other charitable giving questions, feel free to reach out to Capstone Financial Advisors for assistance.

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Sources

[1]Forbes, The Most and Least Charitable States in the U.S. in 2017