CHARITABLE GIVING

by Ganon J. Studenberg, Esq.

Individuals may utilize numerous planning devices to designate the charity of their choice as a beneficiary of their estate plan. These opportunities offer donors great satisfaction in knowing that they are making a future contribution to support a charitable organization. Outright bequests, gift annuities, charitable remainder trusts and beneficiary designations of life insurance policies, retirement plans and IRA's, all constitute planned gifts that can be made to permanently provide a charity with resources to achieve its community building efforts.

1. **LIFETIME GIFTS**. Gifts to qualified charitable organizations during one's lifetime can be made through gifts of cash, tangible personal property, real estate, life insurance and securities. These outright gifts are simple to make and you will be eligible for a federal income tax deduction if you file an itemized return. A gift of cash entitles a donor to the most generous federal income tax deduction available for charitable contributions. You may deduct up to fifty percent of your adjusted gross income for gifts of cash and may carry any amount over that figure forward for up to five additional years.

A charitable gift may be an appropriate vehicle to convert highly appreciated assets into an income stream. When stocks, bonds, mutual funds, real estate, and other appreciated assets are sold, tax is due on any capital gain. By the time the capital gains and income taxes are paid to the government, you may be left with significantly less capital from which to draw an income. However, when appreciated assets are donated to a charity, rather than sold, capital gains taxes that would have been triggered are avoided. A comprehensive estate plan can provide a current income tax deduction not exceeding fifty percent (or can be spread out over five years), increased income stream (income is from the full amount because of no taxes), provide gifts to your favorite charitable organizations, and still provide your family with the same amount of inheritance.

2. **GIFTS AT DEATH**. Most qualified charitable organizations are exempt from taxes. Therefore, any amount you leave to charity in a will or trust will not be subject to Federal estate, gift and generation-skipping taxes. The estate tax charitable deduction is unlimited. Thus, whether the estate tax exemption is $1 million , $5 million or higher is irrelevant. Outright charitable gifts are easy to plan and draft. Gifts through a will or trust are a convenient way to maintain complete control over assets during lifetime, while enjoying estate tax savings for amounts transferred at death.

One of the most tax effective gifts is of your IRA to charity. Many individuals give all or part of their IRA's and other pension plans to a charity at death. Those gifts qualify for the unlimited estate tax deduction and are not include in your gross estate for Federal estate tax purposes. When a retirement plan is payable to individual beneficiaries instead of a charity at death, there can be a double tax and sometimes triple tax if generation skipping tax (GST) is involved. In addition to the estate tax and possible GST tax, the beneficiary must pay income tax on the income in respect of a

decedent (IRD). However, if the retirement plan is given to a charity, those taxes are avoided.

3. **LIFE INCOME GIFTS** (Gifts That Pay You Income). Life income or retained income gifts are gifts that are made now, often in trust and defer benefits to charity. The creation of a life-income gift benefits both the donor and the charity creating a "win-win" situation. Making a life income gift provides the donor with greatest tax benefits and may combine the tax savings of a lifetime gift and bequest. Popular major gifts include, Charitable Remainder Trusts, Charitable Lead Trusts, Remainder Interests in Residences, and Charitable Gift Annuities. Below is a discussion on a few of these popular charitable techniques.

A. Charitable Gift Annuity. A Charitable Gift Annuity (CGA) is simply a contractual agreement between the donor and the charitable organization in which you transfer assets in exchange for an annuity payment for one or two annuitants for life. You or you and another individual will receive a fixed payment of regular income (monthly, quarterly, annually, depending on the program) for life. Since part of your contribution for a gift annuity is considered a charitable donation by the Internal Revenue Service, you will be eligible to claim an income tax charitable deduction in the year of your contribution. Part of each annuity payment is tax free, part is interest, and part can be capital gain if appreciated property is given. When appreciated property, such as stock, that has increased in value is given for a gift annuity, part of the capital gain tax that would normally be due on its sale can be avoided at the time of the gift, and a portion of the gain can be reported over the annuitant's life expectancy. There is also an itemized tax deduction for a portion of the gift amount determined by IRS rules.

Annuity rates are higher for older individuals and lower for younger individuals based on life expectancy. Since a fixed income may not keep up for inflation, CGA's are ideal for older people who wish to covert assets that are not paying a satisfying rate of return into income producing assets. CGA's can be a effective method of achieving your charitable goals, increasing income and receiving significant tax benefits.

B. Charitable Remainder Trusts and Charitable Lead Trusts. When a donor establishes a charitable remainder trust or a charitable lead trust, the donor is making a gift of a partial interest to the charity and either retains the remaining partial interest or gifts it to other beneficiaries. If the charity receives an annuity or unitrust payments for a specified term, with the remaining principal being distributed to the donor or the donor's family, or some other non-charitable beneficiary, the trust is called a "charitable lead trust". When the donor, the donor's family or some other non-charitable beneficiary receives the annuity or unitrust payments for a specified term and the remaining principal is distributed to a charity, the trust is called a "charitable remainder trust".

Typically, the primary purpose of establishing one of these charitable trusts is to provide a present or future economic benefit to the donor, the donor's family, or some other non-charitable beneficiary, while, at the same time, providing for a transfer to a charity which would qualify for charitable deductions from income tax, estate tax and/or gift tax.

With a charitable remainder annuity trust ("CRAT"), the donor typically transfers assets to the trust and receives a fixed dollar amount from the trust each year for life. If the income of the trust is insufficient to meet the required annual payment, the difference is paid from the principal of the trust. If the income is greater than the amount of the annuity payment, then the excess is reinvested in the trust. The charitable deduction for income tax purposes is based upon the value of the assets the year they are placed into the trust and is determined by reducing that amount by the present value of the grantor's right to receive an annuity stream for their actuarial life expectancy.

A charitable remainder uni-trust ("CRUT") is similar to a CRAT, but the periodic payments are computed in a different manner. Typically, the payments received by the donor are based upon a fixed percentage of the fair market value of the assets placed in the trust. Each year, the fair market value of the assets is redetermined and, therefore, the dollar amount the donor receives increases or decreases, depending on the appreciation or depreciation in the value of the assets of the trust. In some cases, the donors prefer to receive a maximum percentage each year (i.e., where the amount of the payment is limited to the lower of the set percentage or the actual income of the trust), with the provision that if the income is less than the set percentage in later years, a "makeup" distribution will be made. These types of CRUT's are called "NIMCRUTS".

CRUTs are often excellent vehicles with which to make charitable bequests of IRAs. Additionally, when clients establish charitable remainder trusts, they often establish irrevocable life insurance trusts for the purpose of replacing the wealth that would pass to their descendants if they hadn't made the transfer to the charities.

C. Gift of a Remainder Interest in a Residence. A gift of a remainder interest in a residence to a charity is a popular gift. This charitable technique involves the homeowner entering into an agreement with the charity in which the charity receives the home when the owner dies. This gift is made by having a deed prepared giving a life estate to the donor and a remainder interest to the charity. The donor will receive an income tax deduction in the year of the gift based on the value of the remainder interest in the home computed by IRS rules. The homeowner is able to continue living in the home during their lifetime. A gift of a remainder interest in a residence is ideal for an older person or couple who wish to make a substantial gift to charity now, retain use of their home and want to receive an current income tax deduction.

As one can see, through careful planning of charitable gifts, it can be possible to meet multiple goals. By choosing the best property to fund gifts, their timing, and the methods used to make them, it can be possible to give more while minimizing or eliminating federal taxes that might otherwise be due and still preserve, or actually enhance financial well-being.

The previous information was provided solely for information purposes. A charitable plan for an individual may or may not contain the techniques discussed. We highly suggest that you seek the professional advice of a specialist in this field to determine the appropriate charitable plan for your situation.

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