

# Charitable Giving Guide

## Ways to Give

There are many ways to make a charitable contribution. This summary highlights some of the most popular charitable giving options, including gifts of stock, bequests, charitable trusts, IRAs, and donor-advised funds. Please keep in mind that there are other forms of charitable giving that have not been addressed in this presentation.

## Gifts of Cash

Outright gifts of cash are the most direct, simplest, and most popular form of charitable giving. Gifts can be made by check or often by credit card and these gifts provide an immediate benefit to the charity. The advantages of gifts of cash include:

- Donor generally receives a current income tax deduction.
- Charity has immediate use of the funds.
- Assets are immediately removed from the donor's estate.

## Gifts of Appreciated Securities

Appreciated securities (held for more than one year) make excellent charitable gifts. Many donors find this method of giving both simple and beneficial since it provides a “double tax benefit”. If your stock is held in a brokerage account, your broker can transfer the stock directly to an account in the name of the charity. If you have possession of the physical stock certificate you wish to donate, the certificate would need to be delivered to the charity in “good delivery form.” The advantages of gifting appreciated securities include:

- Donor generally receives a current income tax deduction for the full market value of the security
- Charity has immediate use of the funds upon sale
- Donor avoids capital gains tax on the appreciation (long term capital gain). Assets are immediately removed from the donor's estate

## Annual Gifts Through Your IRA

Depending upon the current Federal Income Tax regulations, it may be possible to make charitable gifts directly from your IRA. This method of giving is generally limited to IRA owners over the age of 70 ½ and the annual amount is limited to \$100,000. When available, the process is relatively simple. The donor directs his or her IRA custodian to pay the RMD or an amount not exceeding \$100,000 directly to the charity. The advantages of annual gifts through your IRA include:

- Donor does not report the amount of the gift distributed from the IRA as taxable income on his or her tax return
- Charity receives the gift income tax free
- Charity has immediate use of the funds upon sale
- Assets are immediately removed from the donor's estate

## Bequests

Bequests are donations made through a will or trust which are distributed by your estate after your death. More charitable gifts are made by bequests than by any other method. A charitable bequest can be made as a specified asset, a specific amount, or as a percentage of your estate or trust assets. The advantages of bequests gifts are:

- Planned gifts can be revoked during your lifetime
- Relatively inexpensive to establish
- Provides a charitable gift at death without losing the use of the assets during the donor's lifetime
- There is an unlimited charitable deduction for your estate

## Life Insurance Gifts

Life insurance policies let you make a substantial donation to charity in the future by making a series of smaller donations now. The most common way to give using life insurance is to purchase a new life insurance policy and name the charity as the irrevocable owner and beneficiary. The donor makes annual contributions to the charity in the amount of the insurance premium payments (receiving an annual income tax deduction). At the time of the donor's death, the charity receives payment of the life insurance death benefit.

- Donor can make a large gift to charity in the future for relatively small current contributions.

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- Depending on the method used, the donor can receive a current income tax charitable deduction
- A gift of life insurance does not take estate assets from other heirs
- The life insurance value will not be included in the donor's taxable estate

### Estate Gifts through your IRA

One form of a "Bequest" that is often overlooked is to name a charity or charities as beneficiary of your IRA (or a portion of your IRA). The donor names a charity as the primary beneficiary of his or her IRA. At the donor's death, the IRA balance directed to the charity is paid directly to the charity and is received income tax free, since the charity is a tax exempt entity. The advantages of estate gifts through your IRA include:

- Gift is revocable during the donor's lifetime, since the donor can change IRA beneficiaries at any time
- Distribution from the IRA is not reported to the donor's estate or the donor's heirs as taxable income, eliminating any income tax on the distributed income
- Charity is a tax exempt entity, so no income taxes are paid on the distribution and the full value of the IRA can be used by the charity
- There is no cost to create this bequest
- Provides a charitable gift without losing the use of the gifted assets during the donor's lifetime. The IRA still provides income to the donor during his or her lifetime
- There is an unlimited charitable deduction for your estate

### Charitable Remainder Trusts

Using charitable remainder trusts (CRT) donors can receive a current charitable income tax deduction, continued income from assets during their lifetimes and provide assets to a charity at death. Charitable remainder trusts work well for donors who want or need income from their assets during their lifetime but do not want or need to pass these assets to heirs. Many donors find CRTs an appealing part of their retirement planning. Charitable remainder trusts can be created to benefit one or several charitable organizations.

- Donor can receive an immediate income tax deduction for a portion of the assets transferred to the trust.
- Donor receives income from the trust (that may receive advantageous tax treatment) during his or her lifetime

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- Donor can maintain some control of the property during his or her lifetime, subject to the terms of the trust agreement.
- Assets in the charitable trust are removed from the donor's taxable estate.
- Details of the CRT can be determined by the donor, since it is the donor who establishes the trust.

### Charitable Lead Trusts

Charitable lead trusts (CLT) are most appealing to donors who wish to pass assets to their heirs but may not need the income from those assets. This is accomplished by allowing the charity to receive income from the donor's assets for a specified time or the remainder of the donor's lifetime, after which the asset is transferred back to the donor or to the donor's heirs.

- Donor may receive an income tax deduction for the transfer of assets to the CLT
- Donor may not be taxed on the income earned and distributed to charity by the trust
- Donor or the donor's heirs can receive the trust assets back at the end of the trust period
- Transfer to the trust may create a discounted gift value, ultimately reducing the donor's taxable estate value.
- Details of the CLT can be determined by the donor, since it is the donor who establishes the trust

### Charitable Gift Annuities

A gift annuity is a contract between a donor and a charitable institution. The donor makes a gift to the charity, and in return he or she receives annual, quarterly or monthly payments for life. The size of the payments depends on the donor's age and the applicable interest rates at the creation of the annuity. Each payment received is made up of a taxable interest portion and a tax-free return of principal. The advantages of these gifts are:

- Inexpensive for the donor, since they are established by the charities
- Charity receives a current gift
- Donor receives a stable income for life, which will be partially tax-exempt return of principal
- If the annuity is funded with appreciated assets, the embedded capital gain will be distributed and taxable over the life of the annuity
- Donor will receive a current income tax charitable deduction for a portion of the value transferred to the annuity

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## Donor-Advised Fund

A donor-advised fund is a charitable giving vehicle housed in a public charity, and administered by a third party (such as a Community Fund or Mutual Fund company) for the purpose of managing charitable donations on behalf of an organization, family or individual. Donor-advised funds are the fastest growing charitable giving vehicle in the US. Donors contribute assets to a donor-advised fund, receiving a current income-tax deduction and then “advise” annually, over a period of years when and to what charities the funds should be distributed.

The advantages of donor-advised fund gifts include:

- A donor-advised fund is a relatively inexpensive way for a donor to create an ongoing charitable giving program
- Donor typically receives an immediate income tax charitable deduction for the full amount of the contribution
- Donor-advised fund offers professional management of assets
- Donor retains an advisory role over the distribution of contributed assets, while the public charity administering the fund has final authority over distributions

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