Reasons & Options for Charitable Giving

Donating to the causes you care about not only benefits the charities themselves, but it can also be deeply rewarding for the donor as well. Millions of people give to charity regularly to support causes they believe in, as well as for the positive effect it has on their own lives. There are several reasons why people have charitable inclinations beyond the obvious tax-deductible benefit.

Below are several reasons why people give to charity:

Giving makes people feel good
Studies show that helping others is immensely empowering and creates greater fulfillment. Donating to charities creates personal joy, validating the adage that it is "far better to give than to receive."

Family values are passed down to future generations
Including children and grandchildren in the experience of donating to charities shows them from an early age what social causes are important to their family, and they will be more likely to carry on supporting those causes in the future.

Wisdom and personal values drive social responsibility
The financial power to improve the lives of others is a privilege and reinforces one's values, giving the feeling that one is living a life that is true to one's own ethical beliefs.

Sense of commonality and inclusion
Charitable donations can inspire your nearest and dearest to give to the same causes important to you. Many people are drawn into charitable communities because they have been impacted personally, either directly or indirectly. Illness is an example of this.

Dual benefit factor
In addition to helping others by leaving a legacy, there is a personal financial benefit for families and individuals.

Charitable Planning Opportunities

Giving used to be as simple as writing a check or dropping off items at a local charity. And even though this is appropriate for some, for others, it simply does not meet their estate-planning needs. Fortunately, you can take advantage of gifting strategies that can increase the benefits of your gifts both for charity and for your family.

One method for donating to charity is through a charitable trust. A charitable trust can provide meaningful support to a charity you choose while solving various estate and income-tax planning issues. With a charitable trust, you can provide either an income or a remainder interest to charities while retaining the other interest for your beneficiaries and even the grantor.

Charitable remainder trusts and charitable lead trusts are two basic charitable trusts that are available in several variations. Many factors will determine the type of trust that best suits you and the charity. Because of this, you should always reach out to your team of trusted advisors to seek qualified tax and legal advice.

A charitable remainder trust lets a donor make a substantial charitable gift now while receiving income from the assets for use during his or her lifetime. The trustee of a charitable remainder trust can sell appreciated property through the trust and obtain a desired level of income for the donor from the proceeds without incurring immediate capital gains taxes. Consequently, more is left to be invested to provide income for the donor and ultimately benefit the charity.

Here's how remainder trusts work

When you donate property to a charity through a remainder trust, you transfer ownership of the property to the trust, which then pays income to you during the trust's term. You determine the amount of income you will receive based on a percentage (not less than 5%) of the donated property's fair market value. At your death, the death of your beneficiary, or the completion of the trust's term, the trustee will distribute the balance of the trust assets to your chosen charity. You may retain the right to change beneficiaries and to name multiple charitable beneficiaries.

There are two main types of charitable remainder trusts (charitable annuity and charitable unitrust). Their primary difference is how often and in what form distributions are made to income beneficiaries. They also differ in the deduction and number of contributions that can be made to the trust. With a charitable remainder annuity trust, the income beneficiary is paid a fixed dollar amount each year for life or a specified term of years (20 years or less) based on a percentage of the original amount contributed to the trust. Once you have made your contribution to the annuity trust, you can't add to it. Additional contributions, if desired, must be made to a new charitable remainder trust. When you establish a charitable remainder trust, you are entitled to a current income tax deduction. The amount you can deduct is a percentage of the value of the property placed in the trust. The deduction is calculated using IRS-published tables. The deduction amount depends on your annual payout, your age, and/or the age(s) of your income beneficiaries. Generally, the higher your income payout, the lower the deduction, or the trust's specified term of years as well as the published IRS monthly interest rate. Your tax advisor will most likely determine your deduction.

A charitable remainder unitrust's payout fluctuates and can provide a strategy against inflation because the annual distributions vary based on the trust assets' value. With a charitable remainder unitrust, you can choose a Standard Payment in which the payout is determined based on at least 5% of the trust's fair market value and gets revalued annually. The donor determines the percentage of trust assets to be paid out at the time your trust is established. The second option is a Net-Income Payment which pays the lesser of your stated percentage or the net income earned in the trust.

Now, let's look at a charitable lead trust. In a charitable lead trust, the income interest in the asset is distributed to the charity, and the beneficiaries get the remainder interest. To qualify for favorable tax treatment, a charitable lead trust can be established in an annuity format (the charity receives a fixed, constant payout) or in a unitrust format (the payout is determined based on a fixed percentage of the trust asset value and revalued annually with no specific limitations on the term of the trust).

Here's how charitable lead trusts work

A charitable lead trust is often structured to provide gift tax benefits and no current income tax deduction. However, the income from the assets is reported by the trust with an offsetting deduction for the amount paid to charity. A charitable lead trust can also be structured to provide a current income tax deduction. However, in this case, all future income in the trust will be taxable to the donor each year with no offsetting deductions for distributions to charities. A donor can gift more to family members with a reduced gift tax effect because the gift's present value is discounted for the intervening charitable income interest. Of course, the donor must be able to afford to give up both the income interest and the access to principal in the donated property.

Choosing a charitable technique

- A charitable remainder unitrust, in which your payment fluctuates, provides an income that can change over time.
- A charitable remainder annuity trust or charitable gift annuity is designed for those who want to give to charity but still desire a fixed income.
- A charitable lead trust is best suited for those with enough wealth to provide for current and potential income needs and who wish to provide income to a charity for a time, with a future distribution to beneficiaries.
- Private foundations or donor-advised funds let an individual or family obtain a current income tax deduction and establish a long-term vehicle for making charitable gifts.

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