CHARITABLE GIVING OVERVIEW

With charitable gifting, you can donate your property to your favorite charity and reduce your potential estate taxes. A gift of property to a qualified charity may provide income and estate tax deductions if certain qualifications are met. Thus, you get a sense of fulfillment from giving to an organization in which you believe and the peace of mind that comes with knowing your donation will decrease the estate tax burden on loved ones.

There are many ways to include charitable gifting in your estate plan:

Outright bequest

The easiest and most direct way to make a charitable gift is by an outright bequest of cash or property in your will. Making an outright bequest requires only a short paragraph in your will that names the charitable beneficiary and states the amount of your gift.

The outright bequest is especially appropriate when the amount of your gift is relatively small or when you want the funds to go to the charity without strings attached.

Private foundation

Private foundations are tax-exempt charitable entities that are set up, funded, and controlled by a single person or family. While heavily regulated, a private foundation can be an excellent income and estate planning tool.

If you contribute to the private foundation during your lifetime, your contributions to the foundation are income tax-deductible. In addition, by donating appreciated property to a private foundation, you can eliminate your capital gain taxes because the foundation is tax-exempt and the actual contribution provides a charitable contribution deduction. As the funder, you will also have considerable leeway in the foundation's charitable activities and can exercise a high degree of control over its charitable dollar. A final benefit of this estate planning vehicle is that family members can be paid salaries for their work on the governing board.

The private foundation may be most appropriate for the donor who is considering a gift or bequest of $1 million or more and who has the time to commit to it.

Donor-advised fund

A donor-advised fund is an easy-to-establish, lower-cost, flexible vehicle for charitable giving, an alternative to direct giving or to creating a private foundation. This fund is set up under the umbrella of a public charity and serves as a sponsor to many funds. As a result, a donor-advised fund can provide the charitable and tax benefits of a private foundation without some of the expense, legal requirements, and administrative hassle.

As a donor, you receive a tax deduction from your contribution, but you may be able to avoid excise taxes and some of the cost of establishing and administering a private foundation. Once the contribution is made, however, the foundation administering the fund assumes full control over the contribution and will grant you advisory status. Thus, fund administrators are not legally obligated to you; however, they will generally adhere to your requests and make grants to the public charities of your choice.

The donor-advised fund may be appropriate when you want to make modest donations of $5,000 or more and to retain the ability to change the charitable beneficiary of your gifts.

Charitable trust

Another way for you to make charitable gifts is to create a charitable trust. There are many types of charitable trusts, the most common of which include the charitable lead trust and the charitable remainder trust. A **charitable lead trust** pays income to your chosen charity for a certain number of years after your death. Once that period is up, the trust principal passes to your family members or other heirs. The trust is known as a charitable lead trust because the charity gets the first—or lead—interest. A charitable lead trust can be appropriate when you want to retain a cherished asset within the family.

In a **charitable remainder trust**, the flow is reversed. A fixed annual payment goes to your family members or other heirs for a period of years after your death or for the lifetime of one or more beneficiaries. Then, the principal goes to your chosen charity. The trust is known as a charitable remainder trust because the charity gets the remainder interest. Charitable remainder trusts can be appropriate when you depend on an asset or group of assets to provide you or your family income.

Depending on which type of trust you use, the dollar value of the lead (income) interest or the remainder interest produces the charitable deduction that you can generally apply to your income taxes or that your executor can deduct against your taxable estate.