Charitable Giving Tools

Phi-lan-thro-py: According to google, philanthropy is the desire to promote the welfare of others, expressed especially by the generous donation of money to good causes.

The simplest way to give back to the community is to write a check to your favorite charity. While it may be the simplest, it might not be the most advantageous for a tax payer. Below are several irrevocable ways you can give to charity that will benefit the charity and may be more beneficial to you than writing a check.

Appreciated Assets

A donor may give an appreciated asset to their favorite charity. The charity receives the benefit of the market value of the gift. The donor bypasses capital gains tax that they would have realized if they first sold the security and then gave cash to the charity. The donor may receive a charitable tax deduction of the value of the gift given.

Bargain Sale

This is a sale of property to a charitable organization for less than the fair market value of the property. It is treated as part sale, part gift. The donor may receive an income tax deduction for the portion that is considered a gift.

Donor Advised Funds

A donor advised fund is a fund by a donor set up in a public charity. The donor gifts cash or appreciated assets to the donor advised fund and may receive a tax deduction in the same year they made the gift. They can then make grant recommendations to their favorite 501(c)(3) charitable organizations. (Note, there is no further tax deduction when the grants are made). Grants to charities can be made anonymously.

A donor may consider this type of account for several reasons:

1. They may have a year in which they have greater than normal income and wish to receive a bigger tax deduction in the same year but spread out the charitable gifts into future years.
2. The donor would like to give appreciated assets but their targeted charity is unable to handle that type of gift.

3. They would like to prefund their charitable giving in their working years while they are in a higher tax bracket and can better utilize the tax deduction vs. giving outright during their retirement years when they may be in a lower tax bracket.

Life Insurance

Life insurance can be an excellent way to give a bigger gift to charity than one normally might be able to give. There are a number of ways to do this:

1. The donor designates the charity as the beneficiary. The charity will receive the funds when the donor dies. There is no tax deduction for this method.
2. The donor could make the charity the owner and beneficiary and gift the cost of the premium to the charity each year. The premium gifts may be tax deductible. The policy generally needs to be substantial as the charity has expenses in administration.
3. You can gift a policy with cash value to a charity and they could simply cash it in. A gift of insurance with cash value is deductible up to the lesser of cash value, or the premiums paid less loans.

Retained Life Estate

For many, their largest asset is their home. If you are interested in giving a large gift while you are alive but lack the liquidity to do so, you might consider giving a Retained Life Estate of your home. A donor irrevocably deeds their home or farm to a charity but retains the right to live in it for the rest of her life or a term of years (or both). The donor receives an income tax deduction for the charity's remainder value (based on a specific formula).

Gift Annuity

A donor gives money to a charity and the charity provides the donor with an income stream for life or a specific term. This is a split interest gift. The tax deduction is for the present value of the remainder gift (based on a specific formula).

Charitable Lead Trusts

With this gift, the donor gives assets irrevocably to a trust. The income from the trust goes to a charity for a specific amount of time. At the end of the time frame the remainder goes to the donor, the donor's children or another human beneficiary. These trusts can be structured a number of ways. In general this trust is used to remove assets from a person's estate and is an estate tax reduction technique instead of as a way to receive an income tax deduction. In some circumstances this trust can be structured to also reduce income taxes.

Charitable Remainder Trust

This is an arrangement in which a donor transfers assets to a trust. The donor receives an income tax deduction for the remainder interest. The donor receives income from the trust for the trust term, which could be for life. The donor may receive more favorable tax treatment on the trust income than if the assets were outside of the trust. At the end of the trust term the charity receives the assets.

Private Foundations

A donor who would like to make significant gifts to charity and also would like to remain in control of the funds may wish to create a private foundation. They can be excellent vehicles to pass on legacy values to heirs. Private foundations must distribute 5% of the balance to 501(c)(3) organizations each year. Even though they are private, the information about the foundation such as its investment and grant history is considered public. There are significant costs and many rules to follow in maintaining a private foundation.

Supporting Organization

A family can set up a supporting organization under the wing of a public charity. It is good for those who want a close relationship with a public charity. It has some of the control features of a private foundation with the tax status of a public charity.

Private Operating Foundation

This is a foundation that provides charitable services directly, such as a museum, or orphanage. It qualifies for a public charity status and receives higher deduction limits.

Patents and Copyrights

Charitable donations can be made with patents and copyrights. The deduction is equal only to basis in the year of the gift. Over the next 12 years the donor can claim additional deductions based on a percentage of the royalty income received by the charity.

Conservation Easements

Charitable contributions of conservation easements allow tax payers to obtain a federal tax benefit while helping to conserve land for public use or enjoyment or to preserve a historic structure. The easement creates a discounted value for the property that provides a charitable contribution tax deduction and potential tax savings for the owner of these properties.

Qualified Conservation Gift

A gift of conservation must be exclusively for conservation purposes and be received by qualified organizations that are committed to preserving the property.

Tax Deductibility

If an income tax deduction is allowed, it is generally limited by a donor's Adjusted Gross Income (AGI). For all the charitable donations listed above with the exception of Private Foundations and Charitable Lead trusts, the organizations are considered 60% charities. That means if the donor is donating cash, they can deduct up to 60% of their AGI. When donating appreciated securities they can deduct up to 30% of their AGI.

If a person donates to a Private Foundation they are donating to a 30% organization. If donating cash they can deduct up to 30% of their AGI. If donating appreciated property they can deduct up to 20% of their AGI[1].

A charitable lead trust generally does not get an income tax deduction. If it is structured to receive an income tax deduction then it can be considered a 50% organization.

Source[1]:
http://www.minneapolisfoundation.org/wp-content/uploads/2018/04/Compare-Your-Options.pdf