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Charitable Giving Options

As this issue is devoted, in part, to the issue of philanthropy, I thought it prudent to review some basic charitable gifting techniques and how those techniques can be employed in a sophisticated manner to help get the biggest bang for your buck.

Many of us find value in contributing our hard-earned cash or assets to support the organizations or causes that inspire us. The simplest way to provide a gift is to write a check or gift cash. But, why engage in such a simple transaction when there are far more effective techniques that can provide the donor with compounding benefits, especially when it makes little or no difference to the receiving organization?

When we make a simple gift in cash or by check, we get an *income* tax deduction for the amount of the gift. Generally, if you itemize your deductions, you may deduct up to 50 percent of your adjusted gross income.

But, in addition to an income tax deduction, an important consideration when you make a gift is the income tax you might be able to avoid by giving something other than cash or a check. To understand this, we must first remind ourselves about the concept of a tax basis. If I buy a share of GE stock at $100 per share and I sell it at $150 years later, I have $50 of long term capital gain. My tax basis was $100. The sales price (and fair market value) was $150. My realized gain is $50. If I instead give that appreciated asset to a charity, I: (1) don't have to realize the gain of $50; and (2) get a deduction for the full value of the donated asset ($150). By giving appreciated assets to a charity, the donor can compound the effect of the gift.

A donor can also give assets or cash to a charity in their Last Will and Testament. Though the donor will not receive an *income* tax deduction, the donor (or his or her estate) will receive an *estate* tax deduction for the value of the gift. This kind of gift provides money or assets to the charity when the donor clearly no longer has a need for the asset or the income from the asset.

Wouldn't it be great if you could somehow get an *income* tax deduction and reduce the taxable estate for *estate* tax purposes while at the same time keeping some interest in the asset or the income on which you rely? Enter the Charitable Remainder Trust (CRT).

The CRT provides several powerful benefits: (1) income tax deduction (which is not achieved through the use of a gift in a Will); (2) an estate tax reduction (the amount gifted in not included in the estate for estate tax purposes); and (3) an income stream to the donor.

How does it work? The CRT contemplates the donor providing cash or appreciated assets to a trust established by the donor. Keep in mind this trust is an irrevocable trust and different from the Revocable Living Trust discussed in the January issue of this publication. The fact that the CRT is an irrevocable trust simply means that once it is set up, it cannot be changed. In the trust, the donor picks a charity (or several charities) and decides a term for the CRT (a term of years or the lifetime of the donor or the donor and his or her spouse), and the rate of return.

For example, a donor age 75 can put $500,000 into a CRT with 5% payout and receive $25,000 per year for the rest of the donor's life. The donor achieves the following: (1) an income tax deduction equal to the actuarially-determined gift to the charity (here, approximately $236,000 if we utilize the IRS provided life expectancy tables and IRS-provided interest rates)); (2) a reduction in the size of the estate equal to the amount of the income tax deduction; (3) an income for life with a 5% return; (4) acknowledgement from the charity for the gift; and (5) the possibility of directing the use of the funds while the donor still lives. Note the donor can also maintain the ability to change the ultimate charitable recipients of the assets of the CRT as well.

The CRT comes in many different "flavors" including the CRUT, the CRAT, the NIM-CRUT, the FLIP-CRUT, the CLUT and the CLAT (among others). Your planning professional can help you choose the right set up for you.

The biggest downside to the CRT is that the donor typically has to pay for an attorney to draw up the trust. But, once established, there are usually no additional fees to pay the attorney. And, the donor can choose to put more into the CRT, and usually at no additional cost.

Of the many ways that you can give of your assets, consider the approach that gives you the most bang for your buck.

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