Have you considered Charitable Gifting?

Could it make the world a better place? Could it make sense financially?

A gift to charity may prove to be a great financial favor to you.
Some charitable gifting methods offer you notable tax advantages. Here's a brief look at some popular options.

Charitable remainder trusts (CRTs).
These trusts can be useful estate planning tools. People with highly appreciated assets — such as stocks or real estate — are often hesitant to sell those assets and reinvest the proceeds because of the capital gains taxes that could result from the sale. Could the CRT offer a solution to this problem?

CRTs are tax-exempt trusts. In transferring highly appreciated assets into a CRT, you may get: a) a tax deduction for the present value of your future charitable gift, b) income payments from the CRT for up to 20 years, and c) tax-free compounding of the assets within the CRT. Generally, you avoid paying capital gains taxes on the amount of your gift, and you may exclude an otherwise taxable asset from your estate.[1]

After you die, some or all of the assets in the CRT will go to the charity (or charities) of your choice. (What about your heirs? You can structure a CRT in conjunction with an irrevocable life insurance trust so they are not disinherited as a result.)[1]

A charitable remainder annuity trust (CRAT) pays out a fixed income based on a percentage of the initial fair market value of the asset(s) placed in the trust. In a charitable remainder unitrust (CRUT), income from the trust can increase as the trust assets grow with time.[2]

Charitable lead trusts (CLTs).
This is the inverse of a CRT. You transfer assets to the CLT, and it periodically pays a percentage of the value of the trust assets to the charity. At the end of the trust term, your heirs receive the assets within the trust. You don't get an income tax deduction by creating a CLT, but your gift or estate tax could be markedly reduced.[3]

Charitable gift annuities.
Universities commonly suggest these investment vehicles to alumni and donors. (The concept has been around since the mid-1800s.) Basically, you donate money to a university or charity in exchange for a flow of income. You (and optionally, your spouse) receive lifelong annuity payments. After you pass away, the balance of the money you have donated goes to the charity. You may also claim a charitable deduction on your income tax return in the year you make the gift.[4]

Pooled income funds.
In this variation on the charitable gift annuity, the assets you donate are unitized and ***pooled*** with the assets of other donors. So essentially, you are buying ***units*** in an investment pool, like an investor in a mutual fund. The rate of return on your investment varies from year to year.

Pooled income funds often appeal to wealthier donors who don't have a pressing need for fixed annuity payments. As just interest and dividends are paid out of a pooled income fund, it is possible to shield the whole gain from, say, a highly appreciated stock through such a fund. You get an immediate income tax

deduction for a portion of the gift, which may be spread over a few consecutive tax years. Also, the balance of the assets left to the charity at your death may be greater than if a charitable gift annuity is used. Another nice option: You can put more assets in the fund over time, whereas a charitable gift annuity is based on one lump-sum gift.[5]

Donor advised funds. (DAF)
A DAF is a variation on the ***family foundation*** concept. Unlike a private foundation, it is not subject to excise taxes, and it does not require employees and lawyers to implement and administer. You establish a DAF with a lump sum gift to a public charity. The gift becomes property of the charity, which manages the assets. (You can continue to contribute to the fund.) Each year, the charity determines the percentage of the value of the fund that will become available for grants or other programs. You advise the charity how to spend the money. DAF contributions are tax deductible in the year that they are made. You may avoid capital gains taxes and estate taxes on the gift, and the assets may grow tax free.[6]

Scholarships.
These can be created at a school in your own name or in memory of a loved one, and you can set the criteria. Commonly, you and your advisor can work directly with a school to create one.

Life insurance and life estate gifts.
Some people have unwanted or inadequate life insurance policies that may end up increasing the size of their taxable estates. In such cases, a policyholder may elect to donate the policy to charity. By doing this, the donor reduces the size of his or her taxable estate and enjoys a current tax deduction for the amount of the cash value in the policy. The charity can receive a large gift at the donor's death, or it can tap into the cash value of the policy to meet current needs.[7]

Life estate gifts are an interesting option allowing you to gift real estate to a charity, university, or other non-profit — even while you live there. You may take a tax deduction based on the value of property, avoid capital gains tax, and live on the property for the rest of your life.[8] (If somehow you can't remain at that residence, the charity may opt to lease or sell it. You can gift all of a property or just some of a property as appropriate.)[9]

Give carefully.
Charitable gifting is a complicated estate planning tool and is not suitable for all clients. If you are thinking about making a charitable gift, remember that the amount of your tax deduction will ultimately depend on the kind of assets you contribute, and the variables of your individual tax situation. Remember also that some charitable gifts are irrevocable. Trusts are drafted by licensed attorneys who will charge a fee for the service. Be sure to consult qualified financial, legal and tax professionals for more information before you decide if, when and how to give.

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