

Charitable Giving

When you hear the terms “charitable giving” or “estate planning” do you conjure up images of Donald Trump or Warren Buffet? It can only be done by the ultra wealthy? Donating money to a charity can create a legacy for you and your family that can survive beyond your lifetime.

Charitable giving can be beneficial to you in the form of tax advantages and beneficial to the causes that you support. There are four main ways to donate funds – Charitable Bequests, Charitable Remainder Trusts, Charitable Lead Trusts and a Donor Advised Fund.

Charitable Bequests – making a gift of cash or property at your death to a charity. This is done through a will, trust, or other written bequest. This is the least complicated way to donate funds to your favorite causes. Contrary to what you might be thinking, giving monetary assistance to a cause near and dear to your heart does not require huge sacrifice. Utilizing life insurance is an easy way to donate funds to charity without sacrificing your beneficiary’s inheritance. You can either purchase a new policy where the death benefit is earmarked specifically for your charity or charities or you can carve out a portion of death benefit from an in-force life insurance policy designated for your cause.

Charitable Remainder Trusts (CRT) – creating an irrevocable trust and transferring assets to the trust for the benefit of the charity. You make annual payments to yourself for a term of years (usually 20 years) and at the end of the annual payment period, the charity keeps the remaining assets. A CRT can have great tax benefits. If you have a highly appreciated asset and you sell it yourself, you might be facing a large capital gains tax bill. However, you can transfer that highly appreciated asset to a CRT without incurring a gift, estate, or capital gains tax. A trustee can then set up an investment that will provide an income stream to you, the donor, which will be subject to ordinary income taxes and capital gains. At the death of the last beneficiary, the remaining corpus of the trust is distributed to the named charity. A CRT must be either an *annuity trust* or a *unitrust* and both allow flexibility in payment options. The difference between the two is the risk involved. An annuity trust provides a fixed percentage (not less than 5% or more than 50%) of the initial fair market value of the assets. This type is best used with assets that will be able to generate the required income, but do not fluctuate greatly (like bonds). Unfortunately, the income to the donor is fixed and will not grow as the asset base grows, so the income may not keep up with inflation. A unitrust is a more flexible but riskier alternative. The donor still receives a fixed percentage (not less than 5% or more than 50%) of the value of the assets in the trust, but the assets are valued annually and the donor then receives the fixed percentage of the current fair market value. While the donors will benefit from the growth of the investment, they also bear the risk that the investment, and subsequently their income, will decrease.

Charitable Lead Trusts – This is the opposite of the Charitable Remainder Trust. During an identified term, the charity will receive the income (not the donor) and then the donor’s beneficiaries will receive the remaining principal as their inheritance. You will pay a discounted gift tax when transferring assets to the trust, and the trust’s beneficiaries ultimately receive any remaining trust assets free of estate tax.

Donor Advised Fund – setting up a private foundation with a charity of your choice for charitable giving defined by your parameters with tax advantages. These foundations can fund college scholarships, research grants or many others. Donor advised funds fell out of

favor with wealthier individuals after the Tax Reform Act of 1969 eliminated some of their tax advantages.

No matter what your balance sheet looks like, the absolute first step is to bring your financial advisor, your estate planning attorney and your certified public accountant (CPA) to the table. Your attorney will make sure that everything is accomplished legally and appropriately. Your CPA will be able to provide tax advice based upon your specific situation. And your financial advisor will make sure that your attorney's advice and CPA's advice match your financial goals and dreams.

- ✓ The take away - Charitable giving may help maximize your estate-planning strategies.
- ✓ Charitable contributions can be 100% deductible from estate taxes.
- ✓ Either purchasing life insurance or a death benefit carve out might provide an affordable way to create a legacy.
- ✓ A Charitable Remainder Trust offers flexibility, can provide income during your lifetime and significant tax benefits to you and your heirs.
- ✓ In a CRT, assets are placed in a trust and the trustee can sell the assets and set up an investment from which you receive an income stream for a designated period of time.
- ✓ At the end of a period of time in a CRT, the remaining assets revert to your chosen charity.
- ✓ A CRT must be either an annuity trust or a unitrust.
- ✓ Income from an annuity trust is a fixed percentage of the initial fair market value of the assets.
- ✓ Income from a unitrust is a fixed percentage of the fair market value of the trust assets determined annually.
- ✓ Because CRTs are irrevocable, you forego rights to any assets placed in the trust once the trust is established.
- ✓ Other charitable options include a charitable lead trust or donor advised funds.
- ✓ Talk to your legal counsel to determine which options might be right for you.

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