Getting Something for Giving

Americans are very generous when it comes to causes they believe in. In fact, donations by individuals accounted for 75% of the $307.7 billion given to charity in 2008.1 Religious groups, educational institutions, and grant-making foundations were among the top donation recipients.

If you are interested in making the most of your own charitable gifts, setting up a charitable trust may offer your family and your favorite charity some benefits that you hadn't considered.

Charitable Remainder Trust

A grantor who places money, securities, property, and other assets in a charitable remainder trust can designate an income beneficiary, even if it is the grantor herself, to receive payment of a specified amount (at least annually) from the trust. At the end of the trust period, which can be for a certain number of years or for the rest of the grantor's lifetime, the designated charity receives the "remainder" assets, as the name implies.

One key benefit of this strategy is that if the trust is properly executed, you can donate highly appreciated assets without incurring a capital gains tax liability. This may enable you to leverage your gift by donating that portion of the asset value that might otherwise have been consumed by taxes. You may also qualify for an income tax deduction on the estimated present value of the remainder interest that will eventually go to charity.

Charitable Lead Trust

A charitable lead trust takes a nearly opposite approach. The grantor places assets in the trust, which pays an income to the charity. At the end of the trust period, the remaining assets are paid to the grantor or the grantor's beneficiaries. This can help reduce, or in some cases even eliminate, estate taxes on appreciated assets that eventually go to the grantor's heirs. The appeal here is that the family can use the assets that might otherwise create a tax liability to benefit a charity without ultimately surrendering control of the assets.

Bear in mind that donations to both types of trusts are irrevocable; therefore, the assets cannot be withdrawn once the trusts are formed. Not all charitable organizations are able to use all possible gifts. It is prudent to check first. The type of organization you select can also affect the tax benefits you receive. The use of trusts involves a complex web of tax rules and regulations. You should consider the counsel of an experienced estate conservation professional before implementing such strategies.

Charitable trusts may help your charity of choice while also providing you with potential tax benefits. Call today to discuss your need for a planned giving strategy.

1–2) *The Wall Street Journal*, November 9, 2009