Understanding Charitable Giving

How Can My Charity and I Both Benefit from My Gift?

You could receive an immediate income tax deduction. With a properly structured gift, you could realign your investment portfolio without paying capital gains tax on appreciated property. Another strategy may allow you to pass your estate on to your children while avoiding both probate and estate taxes.

You're free to give your property to whomever you choose. To retain the tax advantages associated with planned giving, however, your gift must be made to a qualified organization.

The vast majority of donations are made to charitable organizations. To qualify, a charitable organization must have been organized in the United States, be operated on a strictly non-profit basis, and not be politically active.

In addition to common charitable organizations, you may give to veterans' posts, certain fraternal orders, volunteer fire departments, and civil defense organizations.

You can contribute almost anything to a qualified organization. The deduction limits are more restrictive for gifts other than cash, but you are free to give almost any property of value.

What Are Some Gifting Strategies?

In addition to making an outright donation, there are a number of different gifting techniques you can use.

You can give life insurance. This enables you to give a large future gift at a relatively modest cost.

Making a planned gift can provide some significant benefits.

A charitable contribution may qualify you to receive a significant current income tax deduction.

Your deduction for an outright gift will equal the value of your gift up to certain limits. You can carry forward any gift amount that exceeds these limits for up to five years.

With a charitable lead trust, the trustor 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 trustor or the trustor's heirs. This can help reduce, or in some cases even eliminate, estate taxes on appreciated assets that eventually go to the grantor's heirs.

By using a charitable remainder trust, the trustee can sell highly appreciated gifted investments and reinvest the proceeds to generate income without incurring a capital gains tax liability. Thus, a properly planned gift could enable you to realign your investment portfolio, allow you to diversify your holdings, and even increase your cash flow. You may also qualify for a current income tax deduction on the estimated present value of the remainder interest that will eventually go to charity.

One thing you can’t do is take back your gift. You can’t start selling assets and then pocket the money. But you can change the charity that will eventually receive your gift.

Whatever gifting strategy you choose, planned giving can be very rewarding. It’s wonderful to see your gift at work and to receive tax benefits as well.

While trusts offer numerous advantages, they incur upfront costs and ongoing administrative fees. The use of trusts involves a complex web of tax rules and regulations. You might consider enlisting the counsel of an experienced estate planning professional and your legal and tax advisors before implementing such strategies.