CHARITABLE GIVING – PLANNING YOUR LEGACY

A charitable plan may be an integral part of your overall estate plan. Philanthropic efforts may provide current income tax deductions, allow you to avoid capital gains taxation, reduce or eliminate potential estate tax liability and provide personal satisfaction. Charitable giving can be accomplished in a variety of ways. Some strategies allow for gifts to be made during your lifetime, while others result in gifts made after your death. Below are several strategies that you may wish to consider incorporating into your estate plan.

OUTRIGHT GIFTS

An outright gift of cash, securities or other tangible assets will benefit the charity immediately. Generally, the donor does not maintain discretion over the gift to the charity after the contribution. As long as the charity is tax-exempt under section 501(c)(3), you will receive a tax deduction in the year the gift is made. The amount of deduction depends on the type of asset given and your Adjusted Gross Income (AGI). If you make annual charitable gifts, consider gifting appreciated securities or other assets. Your tax professional can evaluate your tax situation and determine the most tax-advantaged assets to gift. Qualified charities are not subject to capital gains tax, so the entire value of your gift can be used by the charity.

Qualified Charitable Distribution (QCD) - If you are age 70½ or older, you can make direct transfers of up to $100,000 per year from your IRA to a qualified charity and exclude the amount transferred from your taxable income. QCDs may count toward satisfying your required minimum distributions (RMDs) for the year.

BEQUESTS THROUGH WILL, TRUST OR BENEFICIARY DESIGNATION

You may wish to leave a bequest to a charity at your death. This is accomplished by specifying in your Will or Living Trust the charity and the asset(s) to be gifted or listing the charity as the beneficiary of retirement accounts or life insurance policies. Your estate then takes an income tax deduction and estate tax deduction, if applicable. One strategy some people consider is leaving heirs assets equal to the estate exemption and then leaving the remaining estate to charity. This would result in the avoidance of a federal estate tax liability (state estate taxes may still be due).

CHARITABLE TRUSTS

Another strategy for giving to charity is to create a charitable trust and list the charity as a full or partial beneficiary. If you wish to make a partial charitable gift, consider a Charitable Lead Trust or Charitable Remainder Trust.

- Charitable Lead Trust (CLT). This irrevocable trust is created and funded with assets (securities, income producing real estate, cash, etc.) Under this strategy, the charity takes the "lead" interest and receives an income stream for a specified number of years. Once the term is over, the remaining trust assets are passed to your heirs. The amount received by your heirs will depend on the performance of the trust assets, and in most cases the assets are transferred free of estate tax. Assets that are expected to realize rapid appreciation can be well suited for this type of trust. Depending on the structure of the trust, the grantor may receive a tax deduction for the present value of the portion that goes to the charity.
- Charitable Remainder Trust (CRT). This irrevocable trust is essentially the opposite of the CLT. Once a CRT is funded, the grantor or a designated beneficiary receives an income stream for a specified number of years. When the term ends, any remaining trust assets are passed to the charity. The grantor receives an immediate income tax deduction for the present value of the future interest the charity will receive. Appreciated assets are well suited for this type of trust as the trust avoids capital gains taxation upon the sale of the assets.

There are two ways the charity can receive income from the trust: a fixed amount or a fixed percentage of trust assets. If you have a charitable lead annuity trust (CLAT), the charity receives a fixed dollar amount from the trust each year. If you have a charitable lead unitrust (CLUT), the charity receives a fixed percentage of the trust assets each year.

> Note - With both of these strategies, other considerations, such as potential generation skipping tax or gift tax consequences should be evaluated by your tax professional.

PRIVATE FAMILY FOUNDATION

Creating a private family foundation allows you to include other family members in your philanthropic efforts. Once funded, the foundation makes grants to other qualified public charities. You and your family have complete control over which charities receive grants. The foundation can also employ family members to coordinate activities. Foundations are complex legal entities and can be expensive to establish and maintain. Therefore, they are best suited for families who plan to make a large charitable contribution. An income tax deduction is received when assets are donated to the private foundation. The amount of the deduction will depend on the assets donated and the donor's AGI.

DONOR ADVISED FUND

A donor advised fund is an alternative to a private foundation. With a donor advised fund, an account is created for you within a charitable organization. The organization is a separate legal entity, but your account is not. Therefore, it is much easier and less expensive to establish than a private foundation. The fund sells contributed assets free of capital gains tax, and the donor receives a tax deduction based upon the type of property donated and the donor's AGI. The maximum allowable deduction is higher for donations to donor-advised funds than it is for donations to private foundations.

Once you transfer assets into your account, the fund becomes the legal owner of those assets. As the donor, you can only advise, not direct, the organization as to how you would like the funds to be distributed to other public charities. Most donor-advised funds grant the donor's requests, but the organization does have complete control over the investment and distribution of the assets.

COMMUNITY FOUNDATION

Community foundations are tax-exempt organizations that direct donations to other charitable organizations within a given community. The donor receives an immediate income tax deduction based upon the type of property donated and the donor's AGI. The community foundation uses those assets to benefit the community as it sees fit. They are similar to a private foundation but are administered by other professionals instead of the donor or donor's family. They are an excellent strategy for families who wish to benefit their community specifically but do not want to choose each individual charity.

CREATING A PLAN

If philanthropic donations will be part of your overall wealth transfer plan, it is important to create and implement strategies that will facilitate these gifts. At Aldrich Wealth, we have professionals who specialize in gifting strategies as well as CPA's who can fully analyze the income tax, gift tax and estate tax benefits of your desired gifts. We will work with your existing estate planning attorney to ensure proper implementation of your plan, or we can introduce you to one of our trusted professional partners.

The information contained in this report is for informational purposes and is not intended as financial, tax or legal advice, and is accurate to the best of our knowledge. If you are interested in exploring these strategies to see if they are applicable to your specific situation, please contact us.

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