

## What Kind of Charitable Donor Are You?

*Presented by Warren Wealth Associates*

Charitable giving is an important piece of many individuals' estate plans. Beyond the tax advantages offered by charitable donations, many people have personal reasons for choosing to include charities in their estate plans. A number of vehicles are available to facilitate charitable giving, apart from a straight gift of cash or property to an institution. To help you decide how to incorporate charitable giving into your estate plan, let's look at some of the most popular options.

### Donor-Advised Funds

A donor-advised fund is managed by a public charity for the purpose of distributing funds to other charities. The donor makes gifts to the fund throughout their lifetime and may make suggestions regarding the distribution of the assets to specific charities. The fund is in no way obligated to abide by the donor's suggestions, however (although they often do). Additionally, the fund has complete discretion over how the contributions are invested. Again, the donor may make suggestions, but investment decisions are ultimately in the hands of the fund.

A contribution to a donor-advised fund is generally tax-deductible in the year it's made. If cash is donated, the maximum deduction is typically capped at 60 percent of the donor's adjusted gross income (AGI). If a donation of highly appreciated assets is made, the deduction is typically capped at 30 percent of the donor's AGI.

A donor-advised fund may be an excellent vehicle for those who wish to donate a moderate to large amount of capital. The startup costs are usually low, and the minimum donation is generally \$5,000 to \$10,000. With many of these funds, the donor can advise the fund to make grants to multiple charities or to a single charity. Additionally, many funds do not have a minimum annual grant amount, which means that the donor's principal may grow tax free over time.

### Charitable Remainder Trusts

Generally, gifts to charity in which the donor retains a partial interest are not eligible for income tax, gift tax, or estate tax charitable deductions. One exception to that rule is the charitable remainder trust.

Charitable remainder trusts allow the donor to receive income from the trust for the donor's lifetime, the lifetime of another, or a period of up to 20 years. At the end of the specified lifetime or term, the remaining trust assets are distributed to a charitable remainder beneficiary. The greatest benefit of these trusts is that the donor can take advantage of the immediate tax benefits of making a charitable donation while continuing to use the assets, as the donor may deduct the present value of the charitable remainder interest.

There are two forms of charitable remainder trusts, each with its own requirements:

- A **charitable remainder annuity trust (CRAT)** is created by an irrevocable transfer of cash or property. The trust document specifies an annual annuity amount to be paid to the income beneficiary or beneficiaries over their lives or a specified period of time. The annuity amount must be between 5 percent and 50 percent of the value of the original trust principal each year and must be paid out even if there is no income, which means that the trustee may need to dip into principal at times. At the end of the specified annuity time period, the remaining trust assets, which must be at least 10 percent of the initial fair market value of the trust principal, pass to a designated charitable institution. It's important to note that additional contributions may not be made to a CRAT.
- A **charitable remainder unitrust (CRUT)** is also created by an irrevocable transfer of cash or property. Unlike a CRAT, however, a unitrust amount is paid to the income beneficiary or beneficiaries each year based on a specific percentage of the trust assets, which are revalued annually. As a result, the income distributions from a CRUT may vary from year to year. The unitrust amount must be between 5 percent and 50 percent of the trust value, and additional contributions may be made over the lifetime of the trust. At the end of the trust term, the remaining trust assets are paid to a charitable remainder beneficiary. The value of the remaining trust assets must be at least 10 percent of the fair market value of all the property transferred to the trust, determined at the time the asset is contributed.

## Charitable Lead Trusts

A charitable lead trust (CLT) is, in some ways, the converse of a charitable remainder trust. A CLT pays trust income to a charitable beneficiary for a specified term and then distributes the remaining assets to a noncharitable remainder beneficiary. The charitable distributions can be made based on a fixed annuity amount or a variable unitrust amount.

There are two types of CLTs, only one of which results in a current income tax charitable deduction:

- A **nonreversionary lead trust** names someone other than the grantor as the remainder beneficiary, and there is no federal income tax deduction upon its creation.
- A **grantor lead trust**, on the other hand, reverts to the grantor or their spouse as the remainder beneficiary and does qualify for an immediate income tax deduction based on the present value of the annuity or unitrust payments to the charitable institution. This type of CLT can be a useful tool for individuals looking to shelter property from federal gift and estate taxes while taking an immediate income tax deduction.

## Private Foundations

By establishing a private foundation, a donor can retain complete control in carrying out their charitable intentions. A foundation is typically created by a single donor or family, or, in some cases, by a corporation. The donor or donors have the power to direct grants to a particular charitable organization or organizations.

Private foundations are governed by a very strict set of rules to ensure that the organization actually carries out a charitable purpose. A foundation may be subject to various excise taxes if it fails to adhere to guidelines.

Although private foundations offer donors the greatest level of flexibility and control over charitable gifts, they are costly to establish and administer. Additionally, the annual contribution limits are lower for foundations than for many other charitable vehicles. Generally, donors can contribute cash gifts to a maximum of 30 percent, rather than 60 percent, of their AGI; contributions of appreciated property can be made to a maximum of 20 percent, rather than 30 percent, of AGI.

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### Warren Wealth Associates

28 Mountain Boulevard | Warren, NJ 07059

908.769.9400 | 908.769.9402 fax | [www.warrenwealthassociates.com](http://www.warrenwealthassociates.com)

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