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Ten Strategies for Highly Effective Charitable Gifting

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#1

Gift Highly Appreciated Securities Rather Than Cash

An investor has invested $2500 in XYZ stock and it doubled in price and is now worth $5000. If he gifts $5000 in cash, he is spending $5000 out-of-pocket. In contrast, if he gifts his $5000 XYZ position (assuming a 33% federal tax bracket, a long-term capital gain tax rate of 23.8% and a 6% state tax bracket), he will save $745 because:

$$(23.8\% + 6\%) = 29.8\% \times \$2500 = \$745$$

#2

Gift Highly Appreciated Tangible Assets

An investor can gift highly appreciated tangible assets such as jewelry and art and get a tax deduction for the fair market value of the gift only if the item is related to the charity's mission. A donation of a painting that has appreciated in price to the Nelson Atkins Art Museum would be an example where the item is related to the purpose of the charity and therefor the donor is allowed a tax deduction based upon the *fair market value* of the gift. In contrast, the donation of a highly appreciated collectible car to the Boys and Girls Clubs of Greater Kansas City, would provide the donor a tax deduction based solely upon the cost basis and any improvements made, because the item is not related to the charity's purpose.

#3

Split Interest Vehicles

The "split interest" structure is utilized for the dual purpose of having a current beneficiary and a remainder beneficiary, where the current beneficiary is paid out annually over a lifetime or certain term and the remainder beneficiary is given the remaining assets at the end of the period.

Charitable Remainder Trust

It is a fund created and contributed to by the grantor, for the purpose of paying out taxable income for a period of a lifetime to the grantor or a beneficiary, where the "remainder" or left over assets pass tax free to the charity the grantor has chosen. Contributions are tax deductible and both highly appreciated land and securities can be gifted. The amount of annual income has a ceiling based upon a certain minimum threshold of assets that eventually will pass to the charity.

Charitable Lead Trust

It is a fund set up for the purpose of providing current income to charity annually for a term or lifetime, while providing for future heirs (typically family members) with the remaining assets at the end of the period. The annual interest is calculated as a fixed annuity or a fixed percentage of the amount of the trust. The grantor is given an income tax deduction for the creation of the trust if the donor is taxed on the annual income earned.

Pooled Income Fund

It is highly similar to a *charitable remainder trust,* except the charity will handle the administrative duties for a fee. The charity will pool investors' funds together and make annuity payments to the donors for life, with the remaining amount going to the charity. The annual payout will be variable and determined by the fund's annual yield. The tax deduction is determined by the present value of the remainder interest that will ultimately go to the charity.

Charitable Gift Annuity

It is an agreement between a donor and a charity, where the donor receives a tax deduction for making the gift and an annual lifetime payment stream, while the charity receives the remaining asset upon the death of the donor. The donor's income tax deduction is diminished by the value of the lifetime annuity payments. The annuity payments are taxed partially in different ways, including as ordinary income, long-term capital gains, and tax-free return of principal.

#4

Donor-Advised Fund

It is a fund typically run by a mutual fund company or community foundation (such as the Greater Kansas City Community Foundation) for the purpose of making charitable donations where the donor makes an irrevocable current gift of cash or highly appreciated securities in exchange for the latitude to control when, how much, and to what charity or charities the funds are distributed to in the future. Donors are drawn to the professional investment management and administration as well as the flexible structure.

#5

Private Foundation

It is a tax-exempt charitable entity that is created by a person, group of people, or businesses. You can receive a federal tax deduction for contributions. As a general rule, the private foundation must pay out 5% of total assets to charity per year with a reduction for the tax paid on investment income. Private foundations are typically only funded by ultra-high-net-worth investors and large business because the cost of creation, compliance, and the rules against self-dealing are prohibitive. The ultra-wealthy are drawn to the private foundation structure for the high level of control and prestige the structure provides.

#6

Non-Tax Exempt LLC

This structure is ideal for charitable investors who value the benefits of 1) no restrictions on donations, 2) multiple philanthropic endeavors, 3) less regulation and oversight, 4) flexibility for investments and operational control, 5) more privacy, and 6) assets contributed are not irrevocably restricted to philanthropic purposes. However, donors give up the benefit of a current income tax deduction that other structures provide.

#7

IRA Withdrawals and Retirement Accounts

IRA Withdrawals

The IRS permits investors over the age of 70½ to exclude from their income $100,000 per year of IRA distributions if the funds are paid directly to a qualified charity — "Qualified Charitable Distribution." Many investors are attracted to this method of gifting because it satisfies the "Required Minimum Distribution" or "RMD." Another benefit of this method is that it is an exception to the restriction of the 50% of Adjusted Gross Income or AGI limitation.

Retirement Accounts

There are two primary reasons to leave retirement account assets to charity:

- The assets left to the charity are not subject to income taxes upon receipt from your retirement account.
- Since your assets go directly to the charity, your family is allowed a federal estate tax deduction equal to the value of the account.

#8

Remainder Interest in Personal Residence

Donors can give their personal residence to charity but still use it for their lifetime. The donor will receive a tax deduction for the "fair market value" of the property, discounted for the value of the resident donor's use of the property for the rest of their life. Since the residence is gifted to charity, the fair market value of the property is typically excluded from the donor's estate.

#9

Life Insurance Gift

The primary reason many charitable donors utilize life insurance with the charity as a beneficiary is the great amount of leverage life insurance can provide.

#10

Gifting Annually to an Irrevocable Life Insurance Trust

Often investors will make annual gifts to an irrevocable life insurance trust so that money passes to their heirs both tax-free and estate-tax-free.