A Time to Give:
Creating Income with Charitable Planning
by Steven Adkinson

Many people assume charitable giving simply involves giving money away, never to be seen again. But implementing a charitable giving program may actually help investors achieve important financial goals while saving substantially on taxes. And current market and interest rate conditions can make certain charitable gifting vehicles even more beneficial.

A properly structured gifting program can create a source of income for you and your beneficiaries, as well as provide potential income, estate and gift tax benefits. You may, for example, receive an immediate charitable income tax deduction on your gift to charity (subject to AGI limits). And placing assets in certain charitable vehicles removes them, and any subsequent appreciation, from your estate. That could lower your future estate tax liability. Finally, today's low interest rates have the effect of reducing the value of certain gifts to family made through charitable gifting vehicles (which means a lower possible gift tax liability).

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Most people are accustomed to charitable giving in response to direct requests or specific fundraising campaigns. But there are numerous, potentially more tax-advantaged, ways to give to charity. Investors can contribute cash or securities to donor-advised funds, charitable trusts, private family foundations and other charitable giving vehicles. Two of these vehicles—charitable remainder trusts and charitable gift annuities—have become particularly attractive to some investors seeking income in today's low-yield environment. And for certain individuals, the combination of low interest rates and depreciated stock values has created an ideal climate for charitable lead trusts, another type of gifting strategy.

Charitable Remainder Trusts

Charitable remainder trusts (CRTs) can help investors create a current payout stream, diversify assets, receive a potential income tax charitable deduction and leave money to charity, without paying immediate capital gains tax. A CRT provides investors with annual payouts for the length of the trust's term, with the remainder of the assets in the trust going to charity at the end of that term.

There are two types of Charitable Remainder Trusts: the Charitable Remainder Annuity Trust (CRAT) and the Charitable Remainder Unitrust (CRUT). The CRAT can pay out a *fixed* amount to the investor each year, based on the initial value of the trust. The fixed payout may appeal to investors with shorter time frames who are concerned about market volatility. The CRUT also pays out annual amounts, but payouts vary based on the annual value of the assets in the trust throughout its term. Because payouts are variable, the CRUT may be more appropriate for investors who have longer time horizons and expect market values to rise over time.

Charitable Gift Annuities

A charitable gift annuity (CGA) is another strategy that can create fixed annual payout streams. Gifting to a CGA requires an investor to enter into a contract with his or her charity of choice. In exchange for a gift usually consisting of cash or securities, the investor receives fixed annuity payments from a charity for life, starting at the time of the gift or at a future date of the investor's choosing.

Typically, the investor receives a potential charitable income tax deduction equal to the value of the transferred asset, minus the present value of the lifetime annuity payouts. Each annuity payment to the investor is partially income tax-free.

Charitable Lead Trusts

The decreased stock values that prevail today have been painful for many investors. But coupled with the current low interest rates, the lower stock values have actually created a unique opportunity for some investors who create Charitable Lead Trusts (CLTs). The interest rate used to compute the value of the gift for gift tax purposes has been at or near record lows. The lower the interest rate, the lower the value of the gift (which means a lower possible gift tax liability).

Once investors transfer assets to a CLT, the designated charity receives a fixed annual payout from the trust for a specified term. The gift is equal to the value of the transferred asset, minus the present value of the annual payouts to charity. Any assets remaining at the end of the trust's term pass to the beneficiaries designated by the investor in the trust document (often the investor's children) free of estate and gift taxes. (CLTs are not exempt from income or capital gains tax). For this reason, a CLT can be particularly beneficial if its assets substantially appreciate in value during the term of the trust.

We all have personal reasons for giving to charity, but many of us give out of a common desire to share our good fortune with others. And while the current market environment may have impacted that good fortune, it has also created some powerful opportunities for wealth management. Talk to a professional about how implementing a charitable giving program can help you meet your financial, estate planning and philanthropic goals.

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