Charitable Giving Techniques

Variety of Tools Benefit Both Donors and Charities

While the primary goal in making a charitable gift is to support a worthy cause, there are also tax and financial planning benefits for the donor that should be considered. In this article, we'll discuss some of the basic, and not-so-basic, ways to make charitable gifts. Your Baird Financial Advisor can help you sort through the options and help identify the most suitable ways to make gifts to your favorite charitable organizations.

Gifts of Appreciated Property

While the simplest form of charitable giving is to donate cash, you may find it easier and more tax efficient to transfer appreciated property, such as stocks, bonds or mutual fund shares. You can claim a tax deduction for the fair market value of the item, without paying any tax on the appreciation. The charity can then sell the item, and also avoid paying tax on the gain. The items must qualify as long-term capital gain property in order for you to be able to deduct the full value, and these gifts can offset up to 30% of your adjusted gross income (AGI).

Using Trusts to Make Gifts

There may be a situation where you would like the tax benefit of making a gift today, but still want the income that asset can provide for a period of time. To accomplish these dual goals, many people use *Charitable Remainder Trusts (CRTs)*. These trusts allow donors to transfer ownership of assets to a trust that will provide an income stream for a predetermined time, usually for the donor's life. After that, the value of the trust transfers to the charity. Because the gift is irrevocable, the donor receives a tax deduction at the time of the gift. However, the value of the tax deduction is less than the market value of the assets transferred to the trust due to the income stream paid to the donor and the time delay before the charity receives the asset. This calculation can be made by the attorney creating the trust or the accountant preparing the tax return.

The income stream can be determined using two different methods. In a *Charitable Remainder Unitrust (CRUT)*, the income is a percentage of the value of the trust, which is recalculated at the beginning of each year. As the value of the trust rises or falls over time, so does the annual payment. Additional gifts can be made throughout the life of the trust.

With a *Charitable Remainder Annuity Trust (CRAT)*, the income is a percentage of the trust's value the date it is created. Payments are not adjusted annually, which provides the donor a more constant income stream. No additional contributions can be made to this trust.

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CRTs are often used as a way to diversify a highly appreciated, concentrated holding, while deferring the tax cost. When the asset is transferred to the trust, it can be sold and the proceeds reinvested, with taxes paid by the donors as they receive their annual payments.

Pooled Income Funds

Similar to a CRT, *pooled income fund* allows for gifts of cash or appreciated property, provides an income stream to the donor, then transfers to the charity upon the donor's death. These funds are typically offered by mutual fund companies, and allow you to select from the investment options they offer. *Before investing, you should carefully consider the fund's investment objectives, risks, charges and expenses. This and other information is found in the prospectus, which you can request from your Financial Advisor. Please read the prospectus carefully.*

The donor names the charitable beneficiary when the account is established, although a different charity may be designated as beneficiary at a later date. Unlike CRTs, pooled income funds don't require an attorney to create them, nor is there a need to file a separate tax return for the fund. These funds tend to be more appropriate for smaller gifts than those made to a CRT.

More Advanced Gifting Techniques

Family Foundations

Higher-net-worth families many times choose to establish their own *private foundation* to receive gifts, including distributions from a CRT. The family foundation allows for family control over decision making concerning the charitable recipients of the gifts, which can change from year to year. A minimum of 5% of the principal value of the foundation must be distributed to charities each year. Like the CRTs, foundations cost more to establish and require annual tax filings.

Community Foundations

Most major cities have a *community foundation* to which gifts may be made for a variety of local charities. The gifts can be undesignated, which allows the community foundation board to make grants they deem appropriate. Or, a designated or directed fund can be established in your name to target charities of your choice over a period of years or into perpetuity.

Donor-Advised Funds

Donor-advised funds provide most of the benefits of a private foundation while avoiding start-up and ongoing administrative costs. An immediate tax deduction is allowed (subject to AGI limitations), and you may choose the charity or multiple charities to benefit from your contribution, as well as determine when the grant will be given.

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