



Advisor Views

A feature from **Andrew Rafal**. *Advisor Views* offers timely investment news and market updates designed to keep you informed, while attempting to enhance your overall investment experience.

Charitable Bequests: Strategies for Supporting a Charitable Cause and Your Heirs

Are there causes and charities that you would like to fund or donate to while also helping to ensure that your family is taken care of after you're gone? Fortunately, leaving a charitable legacy doesn't have to mean that you'd be short-changing your family. With the help of certain estate planning strategies, you can create an income stream during retirement, or provide for your heirs, while also supporting a charity of your choice.

Very simply, a charitable bequest is the giving of personal property to an organization through the provisions of a will or an estate plan, and donations can be made in many forms including cash, stocks, bonds, or real estate. Many people make charitable contributions prior to their death because, typically, they can benefit from an income tax deduction in the year that the gift was made. If you're planning to leave a gift once you're gone, however, there are different strategies that you may wish to consider.

One simple strategy is to bequeath the asset to the charity under the terms of your will. In this scenario, the donor's estate may benefit from a tax deduction while the charity would benefit from the gifted assets once the donor's estate has been settled. For those of higher net worth, or who plan on leaving a very generous bequest to charity, however, a charitable trust may offer some significant benefits.

Charitable Trusts – Some Common Types

One of the most popular types of charitable trusts is the Charitable Remainder Trust (CRT). Typically, this option enables the donor to claim a charitable income-tax deduction in the year that they contribute the assets to the trust. If the eligible deduction exceeds the donor's income in that year, he or she can carry it forward to offset any income in future years.¹

In addition to the tax deductibility benefit, CRTs allow the donor to place appreciated assets such as stock or bonds into the trust, and then sell those assets without incurring any income or capital gains taxes. Proceeds from the sale can then be invested into income producing vehicles that can provide the trust's beneficiary - either the donor or another named individual - with annual income over the donor's lifetime, or a specified term. Once the term is up, or upon the passing of the donor, the remaining assets would be given to the charity named in the trust.

As opposed to generating income for the trust's beneficiary, Charitable Lead Trusts are created to generate income for the chosen charity for a specified number of years, or over the donor's lifetime. During the period where income is being paid to the charity, the underlying assets remain invested, thereby giving them the potential to appreciate in value during that time. Once the specified term is up, the remaining funds can be passed to a non-charitable beneficiary – usually one or more family members - either partially or completely free of estate or gift taxes.²

While charitable trusts can offer significant benefits from an estate planning perspective, there are many things to consider before you call your alma mater with the good news that you are interested in supporting them financially. First of all, it may be wise to discuss your planned donation with the charity prior to making the gift. In doing so, you may discover some specific

needs of the organization, or similarly, you may be able to offer insight as to specific projects or initiatives that you wish to fund.

Additionally, bear in mind that once assets are placed in a charitable trust, they are often irrevocable. As such, it's important that you've carefully weighed both the pros and cons of placing assets in a trust, and that you've adequately planned for your heirs' financial well-being before committing to a charitable organization.

Lastly, there are other types of charitable trusts in addition to those mentioned in this brief overview. Each is designed to help the donor achieve different estate planning objectives in addition to supporting a worthy cause, so becoming familiar with their potential benefits is essential.

Given that trusts and their related taxation can be complicated, determining whether a charitable trust would be beneficial for you, as well as the most appropriate type of trust, are decisions that should be made with the guidance of a qualified estate attorney.

As always, please contact us with questions, for additional information, or if we can provide assistance with any of your other financial planning needs.

¹ www.cnbc.com/2015/07/16/donations-the-gift-that-keeps-on-giving-for-donors.html

² www.fidelity.com

*Trusts should be drafted by an attorney familiar with such matters in order to take into account income, gift and estate tax laws (including generation skipping transfer tax). Failure to do so could result in adverse tax treatment of trust proceeds.

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