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Private Wealth Management

# Philanthropy – Charitable Giving For Us All

Lists the many ways that a charitably-inclined person can structure their gifts to make the most meaningful impact, while being mindful of potential income sources, capital gains, and estate tax savings

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If you are approaching a stage in your life where you would like to make charitable contributions that will positively impact your community or some specific causes that are meaningful to you and your family, it is important for you to consider how expressions of your charitable inclinations may also provide the best income, capital gains and estate tax savings. Your Baird Financial Advisor can help you understand more about the potential benefits of giving to charity in the following ways:

**Outright gifts of cash**: Cash gifts must be immediately useable by the charity to qualify for a charitable deduction of up to 60% of your Adjusted Gross Income (AGI) on your Federal 1040 tax return. [For the year 2020 only, the CARES Act allows for 100% of cash donations to an "end charity" (not DAF, Private Foundation or Community Organization) to be deducted, up from the 60% standard. The CARES Act also allows for a 300 above the line deduction for a cash contribution of the same type for those who are unable to itemize their deductions.]

**Gifts of appreciated stock:** Instead of making cash gifts, you can avoid paying capital gains tax on the appreciated value of your assets and receive a tax deduction of up to 30% of your Federal AGI by making a gift of appreciated stock directly to your favorite charity.

**Gifts of ownership of an existing insurance policy**: Many of us have paid-up insurance that we do not need for current risks or future family inheritance. You can transfer the ownership and beneficiary designation to a charity. You will receive a charitable deduction for the value of the policy as determined by IRS regulations and your insurance company (up to 50% of Federal AGI).

**Purchasing life insurance at low rates while young, payable to charity:** Younger persons may wish to get more charitable bang for their buck by purchasing insurance for a gifting campaign to a charity that will pay a large death benefit. A charity is named as owner and beneficiary of the policy. Premiums paid by the donor are tax deductible if the policy is owned by the charity.

**Pooled income funds:** A pooled fund is a vehicle that allows you to make smaller gifts to charities and receive an annual return of income during your lifetime based on the earnings in the fund each year. The charity receives the remainder at your death. You get a tax deduction for the remainder gift as projected by formulas that can be calculated when you make your gift. Both charitable institutions and some private foundations run by brokerage firms sponsor charitable pooled funds.

**Charitable gift annuity or deferred annuity:** Some charities will offer you an outright annuity for a gift you make to them. The charity will guarantee a return of income for your life or a period of years. You will receive a tax deduction for the calculated value of the remainder at the time you make the gift. In some cases if you fund the annuity with appreciated assets, you will be subject to capital gains tax on those assets.

**Charitable remainder trust (CRTs):** The CRT is used by many people who intend to make gifts (generally $250,000 or more) to charity, but wish to retain a stream of income for their lifetime or a designated period of years. The CRT is often funded with appreciated property so that when the property is sold the charitable trust pays no capital gains and all of the sales proceeds can be reinvested. You state in your document what annual return you wish to receive from the trust. (This percentage must pass guideline tests that are calculated when you make the gift.)

You will receive a charitable deduction for the charitable remainder value of the trust as projected when you make your gift. Two types of CRTs are commonly used:

- **The charitable remainder unit trust (CRUT):** The CRUT is popular for many donors because multiple gifts can be made throughout the life of the trust. The percentage income payout to you is based on the market value of the account at the end of each calendar year. This type of account is subject to market risk and volatility, but allows for increased income in up markets (and decreased income in prolonged down markets).

- **The charitable remainder annuity trust (CRAT):** The CRAT is popular among those who want a guaranteed stream of income from their charitable gift, regardless of market conditions. The annual income return is calculated based on the original value of the gift. The value of the charitable deduction is calculated on the charitable remainder when the gift is made. No additional contributions are allowed to this trust.

**Family foundations:** Higher net worth families often choose to establish their own private foundation to receive cash gifts, appreciated assets and distributions from their CRTs. A family foundation allows for family control over decision making concerning the charitable recipients of the gifts, which may 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, these accounts will cost more to establish and require annual tax filings. Many families find this extra cost a small price to pay for the ability to maintain control over their charitable investment.

**Community foundations:** Most major metropolitan areas a community foundation to which gifts may be made for a variety of charities in the community. 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. You could help your favorite organizations during your lifetime and after your death.

**Donor-advised funds:** For individuals and families with strong charitable inclinations, donor-advised funds may provide many of the same grant-making and tax benefits of a private foundation, but without the operating expense and administrative burden of creating and running a private foundation.

An immediate income tax deduction is allowed for contributions to a donor advised fund, and you may choose the charity or multiple charities to benefit from your contribution, as well as determine when the grants will be given. The tax and practical advantages of a donor-advised fund may provide a flexible and rewarding alternative to a private foundation for many charitably-inclined individuals and families.

Your Baird Financial Advisor can help you sort through the complexity of charitable giving strategies and help you determine effective ways to make gifts to your favorite community charitable organizations during your lifetime or after your death. You can know you are benefiting those charities you have always wanted to support.