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Creating a Charitable Giving Strategy

WHETHER YOU WISH TO BE A CHECKBOOK PHILANTHROPIST OR ASPIRE TO CREATE A LONG-TERM LEGACY, A SMART PHILANTHROPIC STRATEGY EQUALS SMART FINANCIAL PLANNING.

More than 700,000 federally recognized charities solicit donations annually in the United States for a wide variety of local, national and global causes. In fact, the government encourages you to donate by offering a number of lucrative tax deductions. Setting up a smart philanthropic strategy will help you maximize all the benefits of your donations.

“People need to have a sincere charitable intent to create a good strategy for their philanthropy,” says James Rice, an estate attorney with McCabe & Associates in New York. “It’s also important for individuals to plan ahead and carefully consider how, what and when to give to charity.”

The simplest approach to gift giving is known as checkbook philanthropy. You simply find an organization or cause that appeals to you and write a check. But if your goal is to build a philanthropic legacy, often by creating a trust that can live on for generations, Rice says that the following factors are important to consider:

- What types of donations are best to give to charity?
- Are charitable trusts that reduce estate taxes a viable alternative?
- Should you consider a family foundation or donor-advised funds?

In the long run, crafting a smart gift-giving strategy will allow you to leverage donations for tax, income or other financial benefits and help to increase the amount you are able to give.

MAXIMIZING GIFTS, MINIMIZING TAXES

One of the biggest reasons individuals leave a

sizeable portion of their estate to charity is to avoid hefty estate taxes. Families are able to take an estate tax deduction for cash, real estate, investments (including stocks, IRAs and bonds) and other property donations. The amount of a deduction—in dollars or as a percentage of the estate—is unlimited.

Whether someone is a checkbook philanthropist or a legacy-driven giver, several options can help maximize their gift and tax deductions. For instance, in almost all cases, you should gift appreciated property—especially shares of stock—instead of cash. In the case of stock, you will get the full tax deduction of the shares’ current market value while avoiding paying capital gains taxes. The same rules apply to donations of real estate and art.

Another way to avoid income and estate taxes is to donate tax-deferred assets, such as annuities, IRAs and 401(k)s, to charities. Gifting these assets to a trust lets you deduct their value on your income taxes while you are alive and reduce estate taxes. Investors should also designate a charitable institution or group as beneficiary of one of their life insurance policies. By donating a life insurance policy to charity, the money is not included in your estate and is not taxed.

BENEFITS OF CHARITABLE TRUSTS

You should also consider setting up a trust that would allow your estate to donate in a multitude of ways. The type of trust you create depends on your wishes and tax needs. Though many trusts are irrevocable, the trust recipient or the way the money is used can be changed if your charitable priorities change.

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Several types of trusts can help maximize your charitable intent and help leverage gifts of property. A charitable lead trust, for example, pays an income stream to a designated charity for a predetermined time period. This period can be a fixed number of years or your lifetime. When that term has expired, the remaining cash and investments are distributed to the donor’s heirs, a charity or a mixture of both. This type of trust can be set up with real estate that you want to retain but do not need income from. For example, when you put real estate into a trust and it generates income, that income is then donated to a charity over the course of the life of the trust. When the trust is over, the property goes back into the estate and is taxed accordingly when you die. You then get the immediate tax benefit of the donation.

A charitable remainder trust is structured to

pay you an income while you are alive, and then the remaining invested principal is distributed to a beneficiary charity upon your death. This type of trust may be appropriate if the donor has non-income-producing property. Rather than sell the property and face capital gains taxes, you can give it to the irrevocable trust for 20 years and unlock the value of the property, which can grow over time. You receive distributions from the trust—and the charity gets the remainder. Donating to both types of trusts generates an immediate income tax deduction if structured properly.

LEGACY-DRIVEN GIVING

To create a legacy that lasts for generations, investors can consider setting up their own family foundation or giving to donor-advised funds. “A lot of wealthy people use charity as a way to motivate their children,” Rice says. “By not leaving their estate to their heirs, the estate’s founder forces his or her children to work hard and support themselves.”

Rice suggests that families who have significant estates should consider establishing their own family foundation. According to The Foundation Center, a New York-based group that tracks philanthropic organizations and grant-makers, there were roughly 31,350 family foundations in 2004, an increase of 28% in four years.

Not everyone has the means to set up their own family foundation, however. Foundations have tremendously high start-up and ongoing

administrative costs, and their oversight can often be time-consuming.

The most popular alternative is gifting to donor-advised funds, which are run by large investment firms. With a donor-advised fund, you give money to the fund and take an immediate deduction on your income taxes. And you get to choose when the assets are donated and to what charities. Donor-advised funds have fewer costs than private foundations, and the original gift can exist in perpetuity by having the fund manager invest the principal and donate investment proceeds.

No matter how you choose to establish your legacy, it is essential to always involve your family to ensure its success. Encouraging families to get involved in philanthropy may be as simple as visiting charities with family members, or giving children a charity allowance, or even taking older kids to foundation meetings.

Philanthropic planning can yield tremendous personal satisfaction and, at the same time, generate substantial financial and family benefits. Talk to your estate attorney and financial planner about creating a meaningful and smart gift-giving strategy that can help you achieve your goals. ■

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