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Protect Your Assets Through Charitable Giving And Advanced Wealth Planning

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Introduction

According to the Giving USA Foundation, Americans donated more than $390 billion to charities in 2016. Are you one of those individuals who supported your favorite charitable organizations? If so, you should ensure you are making the best use of your resources so that you, your loved ones and charities can all enjoy the fruits of your labor.

Not all ways of contributing to charitable organizations are created equal; and many people approach charitable giving without a plan. To maximize the impact of your charitable giving, a plan is essential. Ideally, you want to adopt a strategy that makes the most of your hard-earned money both before and after your death. The following are a few options to consider.

Charitable Gift Annuity

A Charitable Gift Annuity is a good way to turn appreciated securities into lifetime fixed income and can be done without a lawyer, although consulting with your attorney and CPA is always recommended. With a Charitable Gift Annuity, you make an irrevocable gift to your favorite charity. In exchange, the charity provides you with a lifetime stream of taxable—typically fixed—income. When you die, the charity gets to keep the gift. In the year you make the gift, you can take a large charitable deduction equal to the net present value of funds estimated to remain for the charity at your death. To make the best use of this option, you'll want to pick a viable charity and preferably be in good health!

Charitable Remainder Trusts

Another option is to establish a Charitable Remainder Trust, of which there are two kinds: a Charitable Remainder Annuity Trust ("CRAT") or a Charitable Remainder UniTrust ("CRUT"). Both involve an irrevocable transfer of money or appreciated property into a trust, and both provide that the obligation to pay the annuity or unitrust amount to the donor beginning on the day the trust is created. Payouts continue for either the life of one (or more) named individual(s) or for a specified term, which cannot exceed twenty years. At the end of the term of the trust, the remainder of the assets in the trust is distributed to the designated charity.

CRATs and CRUTs differ in the manner in which the amount paid out to you is distributed, and consequently, in the amount of money you receive annually. The income stream from a CRAT is based on the value of the donated assets *at the time those assets are placed in the trust.* It remains the same for the duration of the donor's life of the trust. In contrast, the assets held in a CRUT are revalued *at the beginning of each year*. So, depending on market performance and how well the assets in your CRUT are managed, you might receive more—or less—each year.

When deciding whether to create a CRAT or a CRUT, there are two questions you should consider:

- ***How old are you and what is your tolerance for the market?*** If you have more than a Twenty-year life expectancy, you may prefer a CRUT, which has potential for growth in the market and higher payouts. In contrast; if you have already retired or don't want to worry about market volatility, the stability and regular payout amounts of an annuity may be preferable.
- ***Will you want to contribute more?*** If you think you might want to contribute more to the trust after it has been set up, you can do so with a CRUT, but not with a CRAT.

Donor Advised Fund

A Donor Advised Fund ("DAF") is a flexible giving tool that allows you to establish a fund with a charity that administers DAF's (such as a community foundation) which will, in turn, distribute funds from the DAF to certain charities. It is a great option to consider if you are interested in pure philanthropy and are not looking for a return. The benefit to you is a tax deduction in the year of contribution, but the benefit to your charities or cause can extend for years or decades. You can use a DAF during your lifetime or arrange for it to be funded upon your death (or, you can set up the DAF during your lifetime and add assets to it on your death).

With a DAF, a fund advisor is put in charge of making annual distributions to the charity or charities of your choice. If you choose to support a particular cause, your fund advisor will review requests and allocate a percentage of the income earned in the fund as he or she determines.

Charitable Lead Trust

A Charitable Lead Trust ("CLT") is almost a Charitable Remainder Trust *in reverse*. As with the other options, assets (preferably appreciated or low interest assets) are transferred into a trust, but, unlike a CRAT or a CRUT, during the term of this trust, the immediate mandatory distributions go to your chosen charity or charities. This, like the DAF, is good if you do not need an income stream during your lifetime. But, unlike a DAF, your family will receive a payment *upon termination* of the CLT. One point to keep in mind is that there are two types of CLT, a Grantor CLT, wherein you pay income tax personally (thereby allowing the assets to appreciate faster) and a Non-Grantor CLT, wherein the Trust pays the income tax. A non-grantor CLT relieves you of the burden of paying taxes, but it also causes the assets in the trust to appreciate slower.

Conclusion

Depending on whether you want to provide an income stream for yourself or maximize the amount of assets you leave to a charitable organization, one of these options should help you achieve your goals. As always, it is a good idea to consult with an attorney when developing your charitable plan.