# Charitable Giving – Part 2

For the second part of our charitable giving overview, we will discuss three techniques including charitable remainder trusts, charitable lead trusts, and the use of life insurance.

**Charitable Remainder Trust**

A charitable remainder trust is created to make a future contribution to a qualified organization while at the same time provide income to the donor for a predetermined period of time of up to 20 years or until death of the donor, the donor's spouse, or a beneficiary named by the donor. At the end of the term of the trust, all remaining assets will transfer to a chosen qualified organization.

When a donor initially sets up a charitable remainder trust, they will receive a charitable contribution income tax deduction for the amount expected to remain in the trust at the end of its term. In addition, the amount transferred to the trust is immediately removed from the donor's estate therefore reducing future estate taxes. It is beneficial to transfer assets with significant unrealized appreciation to the trust as the charity will not be required to recognize a gain on the sale of the assets. This also saves the donor capital gains tax that would be paid on the appreciation upon sale had the assets not been transferred to the trust.

There are two types of charitable remainder trusts, the Charitable Remainder Annuity Trust ("CRAT") and the Charitable Remainder Unitrust ("CRUT"). The trusts function in the same manner except with a CRAT, the donor receives a fixed amount of income each year that is determined in the year of initial contribution and no contributions may be made to the trust after the initial funding. With a CRUT, the donor receives a variable amount of income that is determined each year as a percentage of the assets within the trust and assets may be added to the trust at any time. In both cases, the annual rate of return to the donor cannot be less than 5 percent and the value of the charitable remainder interest must be at least 10 percent of the value of the property transferred to the trust.

**Charitable Lead Trust**

A charitable lead trust is created to provide a yearly donation to a qualified organization for a specified period of time of up to 20 years or until death of the donor, the donor's spouse, or a beneficiary named by the donor. There are two types of charitable lead trusts, the Charitable Lead Annuity Trust ("CLAT") and the Charitable Lead Unitrust ("CLUT"). The CLAT distributes a fixed annual donation that is based on a percentage of the initial contribution to the trust and the CLUT distributes a variable donation each year based on a percentage of the trusts current assets. A charitable lead trust can be set up as a grantor trust or a non-reversionary trust.

If the trust is set up as a grantor trust, the grantor may claim a charitable contribution income tax deduction in the amount of the present value of the yearly donation to the charity. The grantor must also pay income tax on any earnings of the trust. The term of a grantor trust is for a set number of years and upon completion, the remaining assets revert back to the grantor or their spouse. This type is especially beneficial for donors who would like to make a multi-year pledge and accelerate the charitable contribution deduction to the first year.

If the trust is set up as a non-reversionary trust, the assets transferred are immediately out of the donor's estate and the value of the gift to the beneficiary of the trust is reduced by the present value of the yearly donations to the charity. The donor does not receive a charitable contribution deduction, but also does not pay tax on any income of the trust. The term of a non-reversionary trust can be for a set number of years or for the life of the donor. Upon completion of the trust term, the remaining assets are transferred to a designated beneficiary free of estate and gift taxes.

**Life Insurance Policy**

Life insurance often allows a donor to make a large gift to a qualified organization at a relatively low cost to the donor of the annual premiums. There are various ways to include a nonprofit organization in a personal life insurance policy.

The first option is to name a qualified organization as a beneficiary. The donor will retain control over the policy and if there is cash value in the policy, the donor will retain access to it if needed. When the donor dies, the qualified organization will receive the death benefit and the donor's estate will receive a charitable contribution deduction for the amount of the policy. However, the donor will not receive a charitable contribution deduction during their lifetime.

The second option is to transfer ownership of a current insurance policy to the qualified organization which will change the owner and the beneficiary of the policy to be the organization. The donor will receive a charitable contribution deduction for the lesser of the policy's fair market value or the donor's basis in the policy. The donor may also choose to pay the annual premiums in which case the donor would receive a charitable contribution deduction each year for the amount donated to the organization to pay the premiums. When the donor dies, the charitable organization receives the death benefit.

A third option is to allow the qualified organization to insure the donor. The organization would purchase an insurance policy on the donor's life and the donor would make annual contributions to the organization to pay the premiums. The annual contribution would be a charitable contribution deduction for the donor. When the donor dies, the charitable organization receives the death benefit.

Although the techniques described in Part 1 and Part 2 of our charitable giving series is not an exhaustive list, you can see that there are a variety of techniques that can be used when an individual wishes to donate assets to a qualified organization. If you are charitably inclined, please consult with your wealth advisor as they will be able to provide assistance with selecting the appropriate technique tailored to your unique situation.