

Charitable Giving—Good for the Heart and Your 1040

It may be better to give than to receive, but it is even better to give and see your generosity rewarded. Charitable donations can play a valuable role in your financial and tax strategies. A well-planned gift to charity could produce the following benefits:

- The chance to be more involved in charities close to your heart
- An income tax deduction or reduction
- A reduction (or avoidance) of estate tax

In addition, your donation could provide you with the ability to maintain financial security, the ability to exercise control over assets both during your lifetime and after death, and the opportunity to take care of your heirs in the manner you choose.

In order to accomplish all of these things, you will need a plan tailored to your individual circumstances. The following strategies can be mixed, matched, and combined to provide a giving plan that is right for you.

Gifts of Appreciated Property | When properly arranged, gifts of appreciated property to charity may allow you to avoid the capital gains tax you would have owed upon the sale of the asset and to receive an income tax deduction usually worth the fair market value (FMV) of the property. Also, by removing that asset from your estate, you may reduce your potential estate tax burden.

Charitable Remainder Trust (CRT) | If you wish to make a gift to a charity, but also want to retain some control over the property, a Charitable Remainder Trust (CRT) may be the vehicle for you. A CRT is most effective when funded by an appreciating asset, such as stock in a family-owned business or real estate. After transferring the property to the trust, no income tax is imposed on income remaining in the trust, and you may take a current income tax deduction based on the future value when transferred to charity. Also, by removing the remainder value of the asset from your estate, you may reduce your potential estate tax liability. In short, you obtain the tax benefits of giving while postponing when the charity will receive the gift.

Charitable Lead Trust (CLT) | If you wish to give to a charity without giving the asset away permanently, consider a Charitable Lead Trust (CLT). Through a CLT, you essentially give the charity the use of an asset and the right to any income generated for a period of years. After the specified period has lapsed, the asset can revert back to you or be given to whomever you choose. Possible assets could be income-producing stocks and bonds, your rare book collection, or a painting that you transfer to a museum for a certain length of time. You may receive a current income tax deduction for the value given to charity; however, the trust pays income tax on its income. If a CLT is created upon your death, potential estate tax may be reduced.

Give Away Your 401(k) | Instead of leaving your retirement plan assets to your heirs, think about leaving the balance in your 401(k), or other plan, to a charity. A charity receiving plan assets is not taxed on the income, and your estate gets an estate tax deduction for the value of the assets passing to charity. Consider instead leaving your heirs something that won't be taxed, such as appreciated capital gain property for which they get a basis step-up at your death.

Early tax planning can help you make the most of your charitable giving opportunities. In doing so, you may be able to take advantage of added benefits. Consult your qualified tax, legal, and financial professionals for specific guidance.

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