

## **CHARITABLE TRUSTS – HOW THEY CAN BENEFIT YOU AND A CHARITY**

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### **CHARITABLE TRUSTS**

A charitable trust is a tax designed irrevocable trust which generally provides payments to one or more beneficiaries for life or a period of time, and then pays to a charitable organization. A **charitable lead trust** pays income to a charity at the beginning and then pays out to a non-charitable beneficiary. A **charitable remainder trust** pays to the non-charitable beneficiary first and then pays the charity. Because a charity is involved, the trust is a charitable entity and does not have to pay income or capital gains taxes itself. The gift to the trust qualifies for an immediate income tax deduction based on the actuarial value of the gift to the charity. On death, the portion of the trust which goes to the charity will qualify for a charitable estate tax deduction. Since the trust is a charitable entity it is frequently used to avoid capital gains taxes: An asset can be transferred to and then sold by the trust; the trust can then invest 100% of the proceeds to produce income. It is ideal to convert low basis, low income producing assets, to higher cash flow. These trusts may shield a huge amount of assets from taxation. Indeed, it is possible to “zero-out” a charitable lead trust: to pick terms so that the entire balance of the trust will pass to the children with zero estate taxes.

### **CHARITABLE ANNUITY**

One of the more recently touted tools is a charitable gift annuity. In exchange for the contribution, you receive a payment for your life or a fixed term of years. This gives you income while also providing for the charity. It may be very effective when you transfer appreciated property so as to avoid having to pay the capital gains taxes. A very significant portion of the gift will qualify for an immediate charitable deduction, which may reduce or eliminate income taxes, but not all since you are getting something in return. The rates are comparatively high. A charitable annuity is a simple and effective alternative to a charitable remainder trust.

### **SOME SPECIAL PLANNING OPPORTUNITIES:**

- If you have a very large IRA, by leaving it to a Charitable Remainder Trust, you can greatly increase the income generated to the beneficiary versus naming the beneficiary directly, while creating large charitable deductions.
- If you have low basis real estate and are contemplating retirement, a contribution of the real estate to a Charitable Remainder Trust can provide a solid income stream during retirement, while eliminating the income tax consequences due to the low basis. Partial interests qualify for this type of planning as well.