

# Fashioning a charitable gift: Creative ways of giving

The idea of “planning” a gift to charity may not spring as readily to mind as investment or retirement planning. Yet there are many ways to give, and many kinds of gifts to consider, especially when your philanthropic impulse is strong.

## **Initial steps**

Of course, the very first step in your planning is to identify the object of your philanthropy. Then consider what you intend your gift to accomplish: how you would like your gift to make a difference both in general and specific terms. At this point you probably will make contact with the director of development at your chosen charitable organization to discuss your gift

With the procedural steps out of the way, creativity begins. How can you shape your gift? For instance, your gift need not be cash. You may own certain assets that you may want to donate, and your charity will be more than glad to receive. And, of course, however you make use of your resources, you’ll want to fashion the gift in such a way that you can take maximum advantage of all available tax deductions.

## **Gifts of property**

Generally, you are entitled to a federal income tax deduction for your gifts to charity. There’s a tax bonus when you make a gift of a long-term capital asset that has appreciated in value during the time that you owned it.

Here’s how it works: You plan a substantial gift and are considering selling some securities that you have owned for years and which have grown significantly as the means to fund the gift. You’ll pay a long-term capital gain on the sale and then can pay what’s left over to your charity. If you make a gift of the securities themselves, you will pay no capital gain. The charity can sell the securities without incurring any tax. You also will be entitled to an income tax deduction for the fair market value of the gift of securities.

A more creative approach is to make a gift of personal property, such as a work of art or valuable collectibles. You can deduct the current market value of a gift of appreciated personal property, but there are two caveats: One, if the contributed property is related to the

exempt purpose of the organization—rare books to a library, for instance—the full deduction is available. However, if the property is unrelated to the charity’s purpose—the books to a hospital to sell and use the proceeds—your deduction is limited to the property’s cost basis. Two, although you may make deductible cash donations equal to up to 50% of your adjusted gross income (AGI), the limitation on gifts of appreciated property is only 30% of AGI.

### **Gifts of real estate**

For some people a gift of a parcel of land for many years and that has appreciated significantly in value may be an especially attractive possibility.

As with other appreciated property, you will have the opportunity to take an income tax deduction for your charitable contribution equal to 100% of the property’s fair market value, which, if you have held the property for some time, may be substantial. In addition, you pay no capital gain on the past appreciation. An added bonus: You are reducing your taxable estate by the value of your gift.

If you would rather take a “wait-and-see” approach, you can fashion the real estate gift as a bequest in your will. Although you receive no current income tax deduction, your estate receives a full deduction for the real estate’s fair market value at your death.

### **Gifts of insurance**

Do you have an existing insurance policy that you no longer need? That often happens when there’s insurance on the life of a business owner and the business is sold; or income replacement insurance is in force after retirement.

Why not consider making a gift of that policy instead of the cash donation that you were planning? As long as all of the rights of ownership are completely transferred to the charity, you receive a current income tax deduction equal to the lesser of your cost basis or the fair market value of the policy (roughly equal to the cash surrender value).

There are other ways to tailor a charitable gift of life insurance. For instance, if you have named your spouse as beneficiary, you might name a charity as successor beneficiary in the event that your spouse predeceases you. Although there are no immediate tax benefits, if your spouse does predecease you, and no successor beneficiary is named, the policy’s proceeds would be included in your estate. Or if your named beneficiary no longer needs the insurance protection—adult children—for example, you may change the beneficiary

designation and name your charity. Your estate then would receive a charitable deduction for the proceeds paid to the charity.

An extremely cost-efficient approach is to allow your charity to purchase a policy on your life. Every year you give the charity a tax-deductible amount equal to the annual premium payment. At your death the proceeds are paid to the charity. With this approach you can make a relatively large gift at a very reasonable cost.

## **Gifts in trust**

Fashioning your gift in trust adds a great deal of flexibility to your gift giving.

There are many ways to establish your trust. For example, you may set up your trust during your lifetime or through provisions in your will. You can arrange for the trust to provide you with income from the trust for your life, or income for someone whom you name in the trust document. You can provide for the gift of income to yourself or the named beneficiary or beneficiaries for a period of time, followed by a transfer to the charity (a *charitable remainder annuity, or unitrust*); or the reverse—a gift of income to the charity followed by a transfer of assets to the named beneficiary (*a charitable lead trust*).

You may fund your trust with cash, or be more creative by using the aforementioned appreciated securities, real estate, or life insurance policy. When your donation is placed in the trust, you receive an income tax deduction for the charitable part of the gift. Usually, somewhere between one-fifth to one-half of the value of the property will be deductible, depending on several factors—the age(s) of the trust’s income beneficiary or beneficiaries and the size of the income payments that the creator of the trust chooses.

An “*income-only*” *charitable remainder unitrust* should be considered if retirement is still several years away, and you already are taking maximum advantage of your tax-deferred retirement plans. In a nutshell, this kind of trust permits your trustee to invest the trust’s assets for long-term growth until you retire and need income from the trust.

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You’ll need to cross all the “t’s” and dot all the “i’s” in order to reap all the possible tax benefits from a charitable gift in trust. Be sure to confer with your attorney, trust consultant and the charity itself when considering any of these creative ways of giving.

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Any developments occurring after January 1, 2009, are not reflected in this article