How best to transfer assets to Charitable Organizations?

There are many investment, insurance, and estate planning techniques that can be harnessed to leave money or transfer assets to a charitable organization in a tax-efficient manner. Most charitably inclined people want to give, and they want to give to causes they are passionate about. Oftentimes, certain financial tools are not considered because someone may not be aware what is available to them.

With the passing of the Tax Cuts and Jobs Act in 2017, the standard deduction has gone up to $12,200 for an individual or $24,400 for a couple filing married filing jointly (2019). Given how high the standard deduction is currently, may mean that many people may not be able to itemize deductions. Highlighted below are gifting strategies to be considered that may be beneficial to your current financial situation.

Life Insurance: A planning tool that allows someone to leave assets to a charitable organization and reduce their taxable estate. Someone may choose to apply a for a new policy and name a revocable beneficiary with this intent, or they may simply choose to update a beneficiary on an existing policy. Doing so provides no federal or state tax benefits to the owner of the life insurance policy, as premiums are not tax-deductible. This may however allow the insured to leave a sizable gift with minimal premiums paid in relation to the death benefit paid to the charity. Making the beneficiary revocable also gives the insured the flexibility to make changes in the future if the need arises.

Charitable giving riders are a relatively new addition to the life insurance industry. These riders can be added to policies with face values over $1 million and pay 1-3% of the policies face value to a qualified charity of the policyholder's choice. These attachments/riders usually come at no additional cost and may eliminate the need to create, pay for and administrate separate gift trusts until the death of the insured. Any charity chosen must be a qualified 501 (c) (3) charity as defined by the IRS.

Policy donations are another option, however, are quite a bit more involved. They may provide a much greater benefit to the donor. Gifting a life insurance policy can greatly reduce the donor's taxable estate, however, this only benefits individuals with estates currently over $11.8 Million for individuals and for couples with estates over $22.8 Million (2019). Gifting a policy can also provide a current income-tax deduction of the policy's fair market value which may be significant. If you continue to pay premiums, each payment is also a deductible charitable donation.

Donor-Advised Fund (DAF): These allow you to make a tax-deductible lump-sum charitable contribution; you then may make grant recommendations to 501 (c) (3) organization(s) over your lifetime. Generally, there is a 60% Adjusted Gross Income (AGI) deduction upfront for cash donated. The assets remain in the account and incur no capital gains or estate tax.

Also, you receive tax-free growth on the account. Contributions may also reduce your Alternative Minimum Tax (AMT) impact. Securities or other appreciated assets get up to a 30% deduction of (AGI) and there is also a five-year carry-forward for unused deductions. It is recommended to name a beneficiary so that your heirs can continue to make grant recommendations (if there is a balance left over) over their lifetime.

Qualified Charitable Distributions (QCD's): The Pension Protection Act of 2006 allows taxpayers who are 70 ½ and older to make tax-free charitable donations directly from their IRA to a charitable organization and exclude up to $100,000 annually from their gross income. Each spouse may do this assuming an income tax filing status of married filing jointly. The charitable organization must be a qualified 501 (c) (3) that is eligible to receive tax-deductible contributions and the RMD must be taken by December 31st. Keeping your taxable income lower may reduce the impact to certain tax credits and deductions, including Social Security and Medicare. Some charities do not qualify for QCDs including;

- Private Foundations
- Supporting organizations: i.e., charities carrying out exempt purposes by supporting other exempt organizations, usually other than public charities.
- Donor-advised funds, which public charities manage on behalf of organizations, families, or individuals.

Will or Trust Bequests and Beneficiary Designations: These gifts are made by including a provision in your will or trust document, or by using a beneficiary designation form. The charity receives the gift at your death, at which time your estate can take the income and estate tax deductions.

Charitable Lead Trust: This trust pays income to a charity for a certain period of years, and then the trust principal passes back to you, your family members, or other beneficiaries. A charitable lead trust can be an excellent estate planning vehicle if you own assets that you expect will substantially appreciate. If created properly, it allows you to keep an asset in the family and still provide some tax benefits.

Charitable Remainder Trust: This trust pays income to you, your family members, or beneficiaries for a period of years, then the principal transfers to a specific charity chosen by you. This may provide immediate income tax charitable deduction which can be carried forward for 5 years, the ability to avoid capital gains on an appreciated asset, and removal of trust assets from an estate as well as future appreciation.

Front-loading Charitable Gifts: Front-loading is making two or more years charitable gifts in one given year. This may be helpful in years where someone is able to itemize deductions as opposed to taking the standard deduction by front-loading charitable contributions in one given year. Front-loading makes sense with cash-gifts, but even more so when giving appreciated assets, like shares of stock or mutual funds, because you avoid paying capital gains.

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Much of the following information in the article was sourced from:

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