Charitable Giving Techniques

Gifts to charity during lifetime or at death will reduce the size of the gross estate. An additional benefit of lifetime gifts is that an income tax deduction is available within certain percentage limitations.

Split-Interest Gifts

If the estate owner is not willing or able to contribute the entire asset during lifetime, he or she may consider a split-interest, deferred gift.

The ownership interests in an asset can be split or divided into two parts, a stream of income payable for one or more lifetimes or a term of years (the income interest) and the principal remaining after the income term (the remainder interest).[1] In a split-interest gift, one portion is given in trust for the charity and the other portion is retained.

Charitable Remainder Plans

When the estate owner retains the right to the income but transfers his or her rights in the remainder to a trust, it is called a charitable remainder trust.

To qualify for an income tax deduction the trust must be a unitrust, an annuity trust, a pooled income fund, or a charitable gift annuity.

- **Charitable remainder unitrust:** In this type of trust the donor retains a right to a fixed percentage of the fair market value of the trust assets, with the trust assets being re-valued annually. If the value of the assets increases, so does the annual payout and vice versa.
- **Charitable remainder annuity trust:** This trust is similar to the unitrust but instead pays a fixed dollar amount each year.
- **Pooled income fund:** Assets are transferred to a common investment fund maintained by the charity. Each donor receives annually a share of the income from the fund, in proportion to the contribution made. These annual payments continue for the lifetimes of the donor and spouse. At death, the corpus of the donor's gift, together with any capital gains, passes to the charity. Payments will increase or decrease with the investment performance of the fund.

[1] Technically, the present value of the income share and the present value of the remainder interest.

- **Charitable gift annuity:** The donor transfers the asset directly to the charity, in exchange for the charity's agreement to pay a fixed lifetime annuity.

The amount of the income tax deduction is dependent upon the percentage of the income interest and the period over which it will be paid (usually the life of the donor and his or her spouse). This is determined from the mortality tables published by the government.

Charitable Income Trusts

The charitable income or lead trust is the reverse of the charitable remainder trust. The income interest is assigned to the charity, usually for a period of years, and then the remainder generally passes to the donor's heirs. The amount of the estate tax deduction and the amount left for the heirs will depend upon the number of years income is to be paid to the charity, the size of the annual payments, and the investment results achieved by the trustee