Charitable Giving Is for Everyone

By LT Marc J. Soss, SC, USNR

Charitable giving is a fundamental part of our society today. Both philanthropic goals and tax benefits can be derived from a properly planned charitable giving program. There are many kinds of property you can incorporate into your giving program: cash, securities (stocks and bonds), retirement accounts, automobiles, real estate, or antiques. The property can be transferred outright or through a planned giving arrangement (allowing you or family members to retain an interest in the gift) and take effect during your lifetime or upon your death.

Tax Implications

The U. S. Tax Code ("Code") impacts charitable giving by effecting both the cost and amount of resources available for donation. Taxpayers, who itemize their income tax deductions, are able to reduce their taxable income by the amount of their annual charitable gifts. An added benefit is that the gift will also remove the asset from the taxpayer's estate and lessen, to the extent applicable, any estate taxes that may be due upon death.

In order for a charitable gift to be income tax deductible, it requires the contributed asset be given to a charity that can use it for its exempt purposes. Once this standard is met, the donor will be entitled to a charitable income tax deduction equal to the fair market value of the gifted asset. This deduction will especially be valuable if a substantial capital gains tax would be due if the donor had personally sold the asset. Alternatively, when the taxpayer or his/her family retains a present or future interest in the gift, they will receive an income tax deduction equal to the fair market value of the gift less the present value of the retained interest.

Factors to Consider in Charitable Giving

When creating a charitable plan, the personal factors that must be considered include the following: (1) recipient of the gift [organization(s) or institution(s)]; (2) amount of the gift; (3) whether the gift will be made during lifetime or upon death; (4) an outright gift or one with a retained interest in your or your family; and (5) current and future financial needs of you and your dependents. The following tax factors include: (1) income tax issues (capital gains tax) and savings; and (2) potential estate tax savings.

Outright Gift:

An outright charitable gift will provide the donor with an immediate sense of gratification and an income tax deduction equal to the fair market value of gifted asset. The charity will have the immediate benefit of the gift, subject to any restrictions placed upon it (scholarship or educational purposes). No part of the gift will be later available to the donor or his or her family.

Charitable Trusts:

A charitable trust can provide a donor with both an income tax deduction and a present or future payout stream (income or principal). The tax deduction is based upon the fair market value of the gift, less the present value of the present or future payout stream. The benefits to a donor of using a trust, when establishing a charitable plan, include the following: (1) creation during their lifetime or upon death; (2) determine the term of the trust (lifetime or a fixed term); (3) the level of annual trust payouts; and (4) power to change the charitable beneficiary. In addition, if a donor has been holding onto appreciated assets for fear of paying high capital gains, he or she could transfer the assets to a charitable trust and avoid the capital gains taxes associated with its sale.

The two most widely used types of charitable trusts are the following:

Remainder Trusts:

A charitable remainder trust (CRT) is a tax-exempt trust that enables a donor to donate diversified assets to charitable organizations and receive the benefits of an annual payout (annuity or unitrust amount). The payout rate will depend upon the following: (1) length of the trust; and (2) life expectancies of the payment recipients. At the end of the payment term, the balance of trust assets will be distributed to the charitable beneficiary(s). Upon creation of the trust, the donor receives an income tax deduction equal to the charitable gift, less the present value of the lifetime payouts.

Lead Trusts:

A charitable lead trust (CLT), unlike a remainder trust, is not tax-exempt. The trust provides the charitable organization an up front annual payment for a period of years with the balance, after the expiration of the term, paid to the beneficiary of the donor's selection. Upon creation of the trust, the donor receives an income tax deduction equal to the charitable gift, less the value of the remainder interest.

A CLT is a very attractive option during periods of low interest rates because the value of the donor's initial gift to the trust is determined by a government-set rate, the term of the trust, and the payout to charity. When the government-set rate is low, the value of the donor's gift is reduced for gift tax purposes.

Other Charitable Planning Options

Foundation:

A foundation (private or family) is a tax-exempt charitable entity (nonprofit corporation or trust). It derives its support from one or a small group of individuals and is typically operated by the donor's family or a for-profit corporation. It is a proven method to create a long-term charitable giving strategy

Cont'd. next page

Info That You Can Use - Cont'd from page 26

(annual distributions instead of a one-time gift) with the benefits of an income and estate tax deduction.

A foundation may be utilized for family giving and recognition for involvement in charitable endeavors. Family members may also be employed by or serve on the board of directors or as a trustee of the foundation. The foundation will annually determine how its funds will be distributed to other charitable organizations.

Conclusion

Everyone, regardless of whether you recognize it as a charitable gift, in some form or fashion makes an annual charitable gift. This article was designed to make you aware of your gifting options, the techniques available to you, and the hope you will make the Naval Reserve Association one of your annual charitable benefactors.

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IRR Muster Duty Allowance (MDA)

Those members of the Individual Ready Reserve who are ordered to muster will be paid a MDA for a minimum of two hours of muster duty. The 2005 MDA rate, regardless of pay grade, is $161.94 and payable only once per calendar year. No other payments are payable in connection with travel to the muster duty location. Payment will normally be made within 30 days following muster.