Using Your Assets for Good: Incorporating Charitable Giving Into Your Financial or Estate Plan

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Tax Deductible Donations and Other Philanthropic Benefits

Using your assets for good is part of the joy of having enough wealth to make a difference in the lives of others. For many people, divvying up assets can be an opportunity to think about causes near and dear to them. Sharing the good fortune and leaving a gift for organizations they are passionate about can bring immense joy and satisfaction. Charitable giving also has tax benefits for those who integrate it into their estate planning. In fact, the IRS increased the lifetime gift tax exemption amount in 2021 to $11.7 million and raised the annual exclusion amount to $17,000 in 2023, up from $16,000 for calendar year 2021 ((this amount is not included in the $11.7 million exclusion). These numbers may continue to increase each year, as they have in the past.

Some of the most important criteria to evaluate before allocating assets to a charity include ensuring that you are truly passionate about the organization. It is important to understand:

- How to allocate the donation itself;
- How much goes directly to the cause versus to the administration of the organization; and
- If the organization publishes its data and metrics.

Charitable Giving Through Wills and Trusts

There are many ways to plan for using your assets for good that range from simple to highly complex. Each method of giving has different tax implications —something that any person looking to make a gift should be fully informed about beforehand.

As stewards of the largest wealth transfer to date, baby boomer women will have increasing influence over charitable giving as they take the lead in managing family finances. Understanding the complexities of charitable gifts or the implications of tax-deductible donations can make the allocation all the more fruitful.

Baby boomer women, or any wealthy individual, may choose to include a gift in their estate plan using one of two methods:

A charitable bequest is a gift made to a nonprofit organization through a will or trust. That allows the living giver to remain in control of assets while they are alive and minimizes the potential estate tax upon death. Bequests can be specific dollar amounts or percentages of an estate's value. Residual bequests transfer remaining assets after all other aspects of the will have been satisfied.

There are also contingent bequests, which offer flexibility if the primary beneficiary of the estate predeceases the testator, or if the named beneficiaries waive the provisions. Those who wish to allocate their assets to a philanthropic organization may use charitable bequests — a common vehicle. Bequests can be effective for anyone wishing to leave a one-time gift in their will.

Split the Giving, Double the Benefits

Married couples looking to maximize specific tax benefits to their charitable giving could consider split gifts, which allow the couple to increase their gift tax exemption. Charitable gift annuities and charitable remainder trusts are two ways to implement this policy.

- A charitable gift annuity, a type of split gift, allows the giver to transfer low-yielding assets. In exchange, the charity agrees to pay a fixed payment to one or two individuals —beneficiaries or annuitants—for their lifetime. This payment by the charity is tax-exempt, with provisions for current deductions.
- A charitable remainder trust is another type of split gift. Charitable remainder trusts are typically for highly appreciated assets that provide current income tax deductions. This may allow the assets to be sold without capital gains tax liabilities. This type of gift also provides lifetime income to the donor with the residual income to transfer to the charity upon death.

Large-Scale Charitable Giving: Using Your Assets in a Big Way

Using a donor-advised fund (DAF) allows donors to make tax-deductible donations to a fund in the donor's name established at a public charity. The donor can make more contributions at any time. Donors can also recommend grants to preferred organizations at any time. These funds can be helpful in facilitating philanthropic giving for those who donate to multiple charities annually or those who wish to leave assets to a variety of organizations as they consolidate reporting information from the IRS into one statement and one deduction amount.

Another benefit of a DAF is that you can make your charitable contribution now but choose who you would like those donations to go to later. In other words, if I know that I would like to donate to a good cause, but I haven't decided on which cause or organization that is, then a DAF can help provide a solution. In this case, I can donate now, receive my tax deduction, and direct the donation sometime in the future.

For baby boomer women and other individuals looking to achieve one or more charitable purposes, a family foundation may be the answer. The donor creates and funds it for a specific mission. Family foundations provide income tax deductions and capital gains tax advantages, but they are subject to complex tax rules and laws. They may also require significant involvement from family members who guide and govern the foundation.

Leverage Your Charitable Giving with Life Insurance

As we continue to save over time, we may not need the coverage of a life insurance policy to protect our loved ones. This can be a tremendous opportunity to gift the policy to a charity. After the gift, the donor can deduct the continued premiums paid into the policy. Upon the death of the insured, the charity will receive the full face value of that life insurance contract. Additionally, for upper-income taxpayers, this can help to reduce the taxable estate and provide substantial estate tax savings.

Communication and Expert Advice Makes Charitable Giving Easier

When you think of using your assets for good, you may consider bequeathing assets to a philanthropic organization. If so, it is extremely important to understand the variety of options available. Conducting a meeting with your financial advisor is a great first step to integrating charitable giving into your family's financial plans.

It may be advantageous to have a serious discussion with family members about using your assets for good. Diverting some assets to charity may impact the family. It's also advisable to meet with an attorney. These meetings become increasingly important if a family foundation sounds like the answer.

Giving back to one's community is a duty that many people feel compelled to fulfill. The baby boomer generation is taking hold of family finances and will be the next generation to leave significant philanthropic gifts in its wake. For advisors, it is essential to understand the options available and what benefits—and potential drawbacks—come with each vehicle for charitable giving.

As seen in*: https://www.financialpoise.com/using-your-assets-for-good-incorporating-charitable-giving-into-your-financial-or-estate-plan/*