Charitable Giving

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When it comes to giving to our favorite charity, many of us are under the wrong impression that we are in no position to make a gift. The reality of it is that every dollar given counts and there are some creative ways for donors to give.

Putting a Provision in Your Last Will and Testament or Your Living Trust

Consider updating or amending your current Last Will and Testament or Living Trust to make provisions for your favorite charity. A simple amendment could provide for either a dollar amount or a percentage of your estate to pass to charity. The good news is that with this type of planning, you have the funds available during your lifetime, and the gift to the charity does not occur until your death. If you decide to provide for a charity in your Trust or your Last Will and Testament, consider contacting the charity to determine what that charity's need may be. Should the charitable gift be made to their general fund? Do they have a specific need and would it be a disadvantage to the charity if the gift was too restrictive?

Percentage Versus Dollar Amount

Tom and Sue want to leave money to create a local scholarship fund in their community. They are not sure whether to leave the charity a specific dollar amount or a percentage of their estate. When discussing a gift, why is this important?

With a percentage, the charity will be part of the estate's annual accounting. The charity will be provided with a full accounting, which will include the full value of your estate. With a specific dollar amount, the charity will only be provided with the exact amount that they are provided for in your Will or Trust. For some donors, they want to keep their net worth private from non-family members (even though they are dead) and a specific dollar amount maintains this privacy.

The downside of leaving a specific dollar amount is that you do not know what you will have left at the time of death. By providing a specific dollar amount, instead of a percentage, the charity may end up with a larger portion of the estate than you anticipated. With a percentage, it will always be a portion of your entire estate and it will ensure that both your charity and your family receive an inheritance, regardless of your net worth at death.

Outright Gift Versus Endowed Gift

With an outright gift, the charity has the discretion to use all income and principal from the gift when it is received. With an endowed gift, the charity will receive income only and the principal will be preserved for years to come. With an endowed gift, the principal is held for the benefit of the charity and the fund/principal continues on from year to year. An endowed fund does not give the charity access to the principal, it does, however, provide the charity with a stream of income each year. An endowed gift is worth considering if you want to control how the money is used and ensure that it is there for generations to come.

With an endowed gift, it is important to discuss how you want the endowed fund to be used. Should it be part of the general fund, wherby the income can be used as the charity decides or should the income from the endowed fund only be used for a specific purpose. When setting up an endowed fund that could continue on for many years to come, the donor also needs to address the possibility that the charity or the original purpose of the gift may no longer exist. If that occurs, the donor needs to direct where any remaining funds should be distributed. For example, if breast cancer is cured, then the funds held for breast cancer research would no longer be needed and these funds could be used for another cause.

Charitable Gift Annuity

Many individuals rely on income only and prefer not to touch any of their principal. Many of these individuals seek out the best interest rate from Certificates of Deposit (CD), Annuities or other investments.

With a Charitable Gift Annuity, an individual can make a gift to the charity in exchange for a “stream of income” from the principal that is gifted. The interest rate received by the donor is based on the age of the donor. Typically, an older donor will receive a better income from the gift annuity than from a CD. The income is typically for the life of the donor, but it can be for the life of more than one donor.

For example, if Tom, age 79, donates $20,000 to a charitable gift annuity in return for a lifetime stream of income, Tom will receive income of 7% per year on his $20,000 gift/investment. At Tom’s death, the $20,000 will be transferred to the charity of Tom’s choice.

If Tom had left that same $20,000 invested in a CD at a local financial institution, he would have less than 2% per year on this same $20,000 investment (and that can vary as we all know). If Tom was planning on gifting the funds in the CD to charity at his death anyway, with the charitable gift annuity he enjoyed more lifetime income and satisfied his charitable intent.

Using Retirement Accounts

Many people in our community have saved considerable wealth in retirement accounts (IRA, 401k and Annuities). Most of these assets are tax deferred, meaning we have never paid income taxes on those funds. Charities do not pay taxes. So money that passes to a charity from a retirement account passes to the charity income tax-free.

Designating a charity as a beneficiary of a retirement account is as simple as changing the beneficiary designation with the company that manages the retirement account. It does not require an update to your Will or Trust. Additionally, the portion for the charity can be distributed to the charity by the investment company and your Executor or Trustee does not have to oversee the distribution process.