The Financial Awareness Foundation
Improving Financial Awareness & Financial Literacy™
www.TheFinancialAwarenessFoundation.org

Charitable gifts come in many forms

In support of the Improving Financial Awareness & Financial Literacy Movement's personal finance content media blitz built around the strategic campaign venues of Financial Literacy Month (April) and six month later during Estate & Gift Planning Awareness Month (October), the following article contains several very important messages.

When you decide the time is right to make a charitable gift(s) to your favorite nonprofit organization or cause(s), don't assume that just writing a check is the only option. You have a wide variety of techniques and assets to use to fund charitable gifts, including the following strategies.

1. OUTRIGHT GIFTS - Make a gift by a direct transfer to a charity with no strings attached. Among the assets you can give outright are cash, checks, raw land, improved real estate, crops, automobiles, stocks, bonds, life insurance, art, rare books, historical maps, jewelry, furniture and business inventory. Transferring of low bases assets such as stocks is an excellent way to do this as you will avoid paying the capital gains tax and possibly get to deduct the fair market value of the property. Also if you are in a taxable estate situation this is a excellent way of reducing estate taxes. Business assets may be limited to your basis.

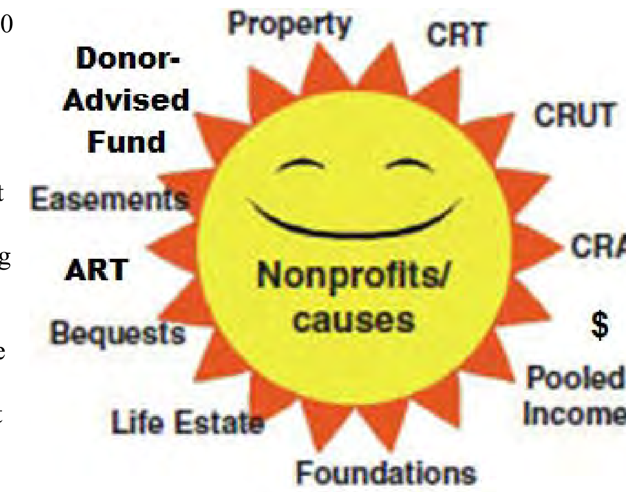
2. CHARITABLE GIFT ANNUITY - A gift annuity is something like a commercial annuity, except you transfer cash, securities or other property to a charitable organization. The organization pays you, or up to two annuitants, a lifetime annuity, and then the principal passes to the organization after the lifetime of the income beneficiaries. You receive an immediate income tax deduction for a portion of your gift, and your annuity payments are treated as part ordinary income and part tax-free. If the gift is funded with appreciated property, your annuity payments are also part capital gains (0 -20%). It is possible to defer the start of your annuity payments to a future date, if needed.

3. CHARITABLE REMAINDER ANNUITY TRUST (CRAT) - With legal assistance, you can set up an irrevocable trust and transfer an asset(s) to it. Then, the trust makes annual distributions back to you during your lifetime and, possibly, the lifetimes of other persons named by you in the trust document. When the last beneficiary dies, the charity receives the remaining trust assets. With this type of Charitable Remainder Trust (CRT), you receive a flow of income, an income tax deduction, estate tax benefits and save on capital gains tax.

4. CHARITABLE REMAINDER UNITRUST (CRUT) - This type of Charitable Remainder Trust have many similarities to the CRAT. The most important difference is that payments to you make fluctuate upward or downward depending upon the value of trust assets each year. CRATs and CRUTs are generally used for large donations to charity.

5. CHARITABLE LEAD TRUST (CLT) - In this case, the charity receives the income first, for a specified period of time, then the remainder goes to someone you designate, usually your children or grandchildren. This works particularly well when the asset is generating good income and growing in value. Using this technique properly can have a material effect in saving estate taxes.

6. POOLED INCOME FUND - A pooled income fund operates like a Charitable Remainder Trust and has similarities to a mutual fund except you can't withdraw your contribution. It's a trust established by a public charity. The fund receives contributions from you and other individuals that are combined together within an investment fund. Usually, smaller donations (e.g. $5,000) are acceptable. As a donor, you are given "units of participation" in the fund depending upon the size of your contribution and the overall size of the fund. You and named beneficiaries receive annual distributions. When the last beneficiary dies, the charity receives your share of the assets. You receive a flow of income, an income tax deduction and estate tax benefits.



7. PRIVATE FOUNDATION - You can set up your own charity. Typically, you'll need to make substantial contributions to benefit from a foundation and usually have more expenses and involvement for you and your family with a private foundation.

8. COMMUNITY FOUNDATION - These are nonprofit regional trusts that let you donate funds–$5,000 to $10,000 or more–the foundation then allocates to local charities. You can direct where distributions should be made. A community foundation can serve as a conduit for a number of other strategies discussed and can be an excellent resource for discussing your charitable plans.

9. LIFE ESTATE - With this approach, you retain the right to live in or use real estate, including your residence or a farm. Upon your death, or your death and designated parties, the charity receives the real estate. This plan also allows for you to receive an income tax deduction and estate tax benefits.

10. GIFT EASEMENT - For real property owned by you, you may grant an easement (i.e. a usage) for conservation purposes to publicly supported charities or the government. The permissible conservation purposes include preserving land for outdoor recreation, scenic enjoyment, education, preservation of historically important land or structures or the protection of wildlife, fish and plant habitats. The rights you grant must prevent using your retained interest in the property in a way that does not fit with the conservation purpose.

11. TRANSFER BY WILL, TRUST OR BENEFICIARY DESIGNATION - Give assets to a charity at your death through your will, living trust or beneficiary designations on your life insurance and retirement plans. Using this technique your estate receives an estate tax deduction. Also consider naming charities as alternate beneficiaries behind your initial choices.

12. PARTIAL INTEREST DONATIONS - Under certain circumstances, a current gift of a partial interest in a piece of real estate, art object or a collection may give you some interesting benefits. For example, if you donate a one-quarter interest in your rare map collection, with the promise of full ownership sometime in the future, you'd get to use the collection for nine months while the charity would get it for the remaining three months. The gifting of a partial interest such as this would give you a current income tax deduction of one-fourth the fair-market value of your collection as of the date of the donation. This allows you to enjoy your collections, to make future gifts with their income, and estate tax benefits.

13. DONOR ADVISED FUND— a donor advised fund (DAF) is a charitable giving vehicle that is maintained and operated by a 501(c)(3) organization once the donor makes a contribution. The organization has legal control over it and the donor receives the maximum deduction the IRS allows. The donor retains advisory privileges with respect to distribution and management of funds.

RESOURCE CENTER

- www.leavealegacy.org
- www.charitablechoices.org
- www.cof.org
- www.give.org
- www.justgive.org
- www.irs.gov/publications/p526/index.html

CHECKLIST OF INCOME TAX RULES FOR CHARITABLE GIVING

☐ **1.** To financially benefit from your charitable gift you will need to itemize your deductions on your income tax returns**.**

☐ **2.** You may not be able to deduct all of a contribution in the year you make it. In general, you can deduct contributions of:

• Cash, up to 50 percent of your adjusted gross income, appreciated intangible property (e.g. stocks) and real estate that has gone up in value and been held long-term (more than one year), up to 30 percent of your adjusted gross income (you can make a special election to deduct up to 50 percent, but you can't deduct the appreciation, only your cost).

• Intangible property and real estate owned for one year or less for your cost of the asset or the current fair market value, whichever is less, up to 50 percent of your adjusted gross income.

• Tangible personal property (e.g., furniture, art, jewelry) held long-term may be deducted up to 30 percent of your adjusted income for the full value of the property (if the charity uses your gift as part of its main activity -- e.g. artwork donated to an art museum that displays it). The 30 percent limit can become 50 percent if you make a special election to deduct only the asset cost. For unrelated gifts, deduct the lesser of your cost or the fair market value up to 50 percent of your adjusted gross income.

• If your donation is not deductible because it exceeds the limitation on adjusted gross income, you may use the excess over the next five years.

• Note: The tax rules described above apply to 50 percent limit organizations" (such as publicly supported charities, churches, schools and certain private foundations). Donation to a non-50 percent limit organization (such as a veterans' organization, fraternal society and certain private foundations) may limit deductibility to 30 percent or 20 percent.

☐ **3.** Be careful in making contributions of stock near year end as December is a very busy time for making charitable and non-charitable gifts of stock and for the selling of stock for income tax purposes.

☐ **4.** If the value of items are valued at $500 or more your must complete a Form 8283 and attach it to your return.

There are many exceptions and special rules that may affect the amount of your deduction. If you are considering a charitable gift and want to maximize your tax deductions, be sure to obtain professional advice before making your donation.

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For additional information or materials contact us at

The Financial Awareness Foundation

A 501(c)(3) Nonprofit Organization dedicated to significantly

"Improving financial awareness & financial literacy" ™

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