A Gift that Gives Back

I'd like to bring to your attention a gifting technique that for many people, is a perfect solution in fulfilling their philanthropic goals and, which will also benefit both a charity, and the donor. Although I'm presenting this idea conceptually, the process can be complicated and you should consult an attorney who specializes in charitable planning, to address your particular situation.

Wouldn't it be nice to make a gift to a charity and, in return, receive a lifetime income? The answer is yes, and the vehicle that provides this benefit is called a split interest charitable trust. This feature allows for an asset to be transferred to a trust that is split into two parts. The first part offers a stream of income produced by the asset, which goes to the donor or related person, and the second component, the remaining principal, is then donated to the charity when the trust is terminated.

Here's how it works; a donor transfers an asset to a Charitable Remainder Trust (CRT) and names both an income and a remainder beneficiary. The income beneficiary, or person who receives the income, can be the donor or spouse, individually or jointly, or another family member. The remainder beneficiary, a charity, receives the remaining value of the asset at termination. In addition to the income, the donor also receives a tax deduction the year the trust is funded. One big advantage of a CRT is that a person can transfer a non-income producing, or highly appreciated asset, such as stocks, mutual funds, or land, into the trust where it can then be sold and converted to an income producing asset. The income is paid annually and the amount is determined by the age of the interest beneficiaries, and the value and type of trust.

Another common option is called a Charitable Gift Annuity (CGA) offered by the charities themselves. It is another way to make a gift to your favorite charity and still receive an income as in a CRT. But it differs in that it is a contract where the charity agrees to pay an income beneficiary. The dissimilarity is that the income is now guaranteed by the charity and not by the underlying assets of a trust.

As mentioned at the beginning, this is a simplified overview of a popular approach to making gifts to charity but more importantly, it allows a person to make a gift which may not have been possible had it not been for an income benefit. This may be a perfect opportunity for someone looking for income and is philanthropic.