

# What Is Charitable Planning?

**Q: I contribute what I can to charity, but I'm not wealthy. Would it make sense for me to plan my charitable giving?**

**A:** Few families have enough wealth to create foundations that endow libraries or university chairs, but you do not need huge wealth to impact people's lives. A plan for charitable giving can help you make the most of your contributions.

**Q.: What, exactly, does charitable planning involve?**

**A.:** Planning your charitable gifts generally means finding lawful ways to provide money for charitable organizations that you would otherwise pay in taxes.

**Q: How does this work?**

**A:** By using charitable income tax tools and estate tax tools, you can control how to spend some of the money (also known as "social capital") that is withheld from your paycheck for income or estate tax purposes. The tax code actually encourages people to direct their "social capital" to the charities they favor because it is a more efficient way to support the social infrastructure. If the government can encourage individuals to voluntarily support programs that society needs, it frees up tax dollars for use elsewhere.

**Q: A charity I regularly support has asked me to consider making a planned gift. What is that?**

**A:** A planned gift usually is a gift of property (either cash, stocks, or real property) that is given to the charitable organization after you die. In order to make a planned gift, you would direct the donation to be made through your will or trust.

**Q: The person from the charity also talked about a gift annuity, charitable remainder trust and a testamentary lead trust. What are these?**

**A:** Let's start with a gift annuity. In return for your gift, the charity promises to pay to you (and your spouse, or anyone you name) a regular annuity payment, usually at a rate set by the Council on Gift Annuities, as long as both of you live. Most charities will not negotiate rates.

Charitable remainder trusts (CRTs) are set up as "charitable entities." Like other charitable entities (e.g., the American Cancer Society), a CRT does not have to pay income tax. With CRTs (as with gift annuities), you can take a charitable income tax deduction for the amount of the remainder interest intended for charity in the year you make the donation. If you contribute to a CRT in 2005, you get a deduction in 2005 for the value of the remainder interest figured according to a Treasury Department formula. If the deduction is larger than you can use in the year you make the gift, then you can carry it forward for five years or until it is used up.

Like a gift annuity, you also get a return from the charitable remainder trust, and you as the trustmaker and donor can arrange for the payout to go to you and your spouse or anyone you name. Also, you can set your own payout rate—as long as it does not exceed 50 percent and at least 10 percent of the assets will go to the charity when the trust ends (usually at the end of the life of the trustmaker and any other named income beneficiary).

A testamentary lead trust pays an annuity, after you die, to your designated charity for a certain number of years. After that time, the remaining principal goes to your heirs. Since the testamentary lead trust is actually created when you die, an estate tax deduction is taken for the value of the gift at the time of your death. Estate planners often use a testamentary lead trust to reduce or eliminate the estate tax.

Since these gift planning tools are rather complicated, you would be wise to consult an attorney, financial advisor or accountant for advice.

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*Law You Can Use is a weekly consumer legal information column provided by the Ohio State Bar Association (OSBA). This article was prepared by attorney Jeffrey R. Dundon, partner in the Dayton firm of Dundon & Huddleston LLP.*

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