

December Is The Perfect Time To Discuss Your Philanthropic Goals In Your Estate Plan

By Liz Altman

It's the time of year, the Holidays when 30% of all charitable giving takes place. A steady increase in gifts has occurred, 18% since 2018, even with the increase in the standard deduction under the Tax Cuts and Jobs Act. Recently Wealth Management Magazine examined the gifting activities of 1,000 private foundations with assets between \$1 million and \$500 million to understand how wealthy families pursue their philanthropy.

The study showed higher giving levels due to endowment growth and that foundations increased giving in 2021 by about \$40 million. There were fewer grants in 2021, and most dollars were targeted to create a larger charitable impact. Many of these foundations give distributions greater than the annual distribution requirement. We are returning to a more specific type of grant by donors as it lets the grant align with the goals of the grantors rather than general-purpose gifts.

The Most Popular Types of Charitable Planning The Donor Advised Fund

Establishing a donor-advised fund (DAF) lets clients be as active as they want in their philanthropy while giving them an immediate tax benefit. DAFs are easily established with public charities, and clients can recommend grants from the fund. More active clients can track returns on investment of grants and research and engage with grantees. When using a DAF, clients are considered "advisors" who can suggest how the charity might use their donations, but the final decision is ultimately up to the charity.

Private Foundations

This charitable giving strategy is best suited for philanthropic legacies over \$1 million. It is a good option for those clients that want to involve their families in the gifting process. A foundation allows for the greatest control over the investment and distribution of donated funds. Private Foundations have many more rules and regulations, but it does give clients the option to compensate board members for their work and allows for international grants.

Private foundations and DAFs can be used with each other to achieve the desired result. Because private foundations have an annual minimum distribution requirement, a DAF can be useful as a backup for these distributions. A DAF can provide anonymity to a donation, while a private foundation does not. There also may be tax benefits to contributing certain assets from one type of vehicle over the other, letting them complement each other.

Charitable Remainder and Charitable Lead Trusts

Charitable remainder trusts (CRT) and Charitable lead trusts (CLT) operate within the same premises. Both are irrevocable, so once the asset is placed inside the trust, it cannot be removed by the grantor. These trusts should be funded with assets that a client can afford to give. Both provide for a stream of income distributed to a designated party during the term of the trust and for the remaining trust assets to be distributed when the trust terminates.

A Charitable lead trust lets the charity receive income interest while the beneficiaries receive their disbursement once the trust ends. This differs from a CRT, with the beneficiaries receiving the income interest upfront and the charity collecting the trust's remaining assets at the end of the trust. There are also significant differences in the income tax allowed deductions during the life of these trusts.

Other types of charitable planning trusts can fulfill a client's goals, such as a Charitable lead annuity trust (CLAT), Charitable lead unitrust (CLU), Charitable remainder annuity trust (CRAT), and a Charitable remainder unitrust (CRU).

Please Speak with our attorneys before proceeding with your philanthropic goals to determine which strategy is appropriate.

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