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CHARITABLE GIVING

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GIVING FROM THE HEART. DONE SMART.

Most people have causes they care deeply about, and charitable giving is a great way to make a difference in the world. But finding the appropriate giving arrangement can be complicated. We hope this guide helps you maximize your charitable impact—as well as your income tax benefits.

We're here to help
A TIAA advisor can help you figure out how much you can give based on your assets and your needs.

CONTENTS

WHAT'S THE BEST WAY TO GIVE?

Choosing the right way to donate your hard-earned dollars is the most important part of a smart charitable giving strategy. Start by considering:

WHO?

Which organization do you wish to benefit? It could be your alma mater, a favorite art museum, the pediatric wing in the hospital where your children were born—you fill in the blank.

WHEN?

When do you want your gift to take effect? It may be now, later or upon your death. Do you want to retain control over the amount(s) you give?

WHAT?

What type of asset do you want to donate? Cash, marketable securities (stocks or bonds), retirement plan assets, real estate, life insurance or tangible personal property (household items, jewelry, artwork, etc.)?

HOW?

Should you make an outright gift or should you retain some interest in the asset? The tax benefits vary according to the nature of the gift, how much of an interest you retain in the gift and market factors. Do you want to make a restricted or unrestricted gift? (A restricted gift specifies how the donation should be spent. For example, a donor might specify that donated funds go toward scholarships in a university's mathematics department. An unrestricted gift puts no restrictions on how the donation should be spent.)

Do a charity check

Charity Navigator™
charitynavigator.org

BBB Wise Giving Alliance™
give.org

GuideStar™
guidestar.org

Please note that TIAA is not responsible for the content or privacy policies of third-party sites that may be referenced in this material or to which you may link from this material. TIAA does not endorse or recommend the products, services or information found on any third-party site.

Evaluating charities

It's smart to treat your donation like an investment decision. Investigate the charities you're considering donating to—and be sure they're responsible and spend their money wisely. If you don't have enough information about a charity to make an informed decision, seek out additional information, such as the resources shown at left.

Trust your instincts

If you still have doubts about a charity, don't contribute to it. Instead, find another nonprofit that does the same kind of work and that you do feel comfortable with.

CHARITABLE INCOME TAX DEDUCTIONS

People make charitable gifts for many reasons. Whatever your motivation, you may be rewarded with a charitable income tax deduction. The deduction amount allowed in a particular tax year depends on:

WHAT?

The type of asset you give. For example, cash, appreciated securities or tangible personal property (like a painting).

WHEN?

When the actual gift happens. For example, whether you make a gift—let's say a home—outright or whether you give the home but reserve an interest in it, like the right to live in it during your lifetime.

HOW?

Whether or not your gift has conditions. For example, let's say you give money to a charity but retain an income interest from that money during your lifetime. The charity will only receive the money after your death.

WHO?

To whom you make the donation—i.e., a public or private charity.

If your gift exceeds the amount you're eligible to deduct in any given tax year, you can generally carry forward the unused deduction amount for up to a total of five years.

Tax

Increased standard deduction

A hallmark of current tax law is the near doubling of the standard deduction. Congressional analysts say bulking up the standard deduction will let more than 30 million taxpayers avoid the hassle of itemizing write-offs on their tax return because the higher standard deduction will exceed their qualifying itemized deductions. Individuals age 65 or older, as well as individuals who are blind, will still receive higher standard deductions. Given the increase in the standard deduction, fewer taxpayers will benefit from a charitable income tax deduction when giving cash or highly appreciated stocks.

CHARITABLE DEDUCTIONS AT A GLANCE

Gift	Potential deduction
Cash	You may deduct the fair market value (FMV)—up to 60% of your adjusted gross income (AGI).
Marketable securities	If the securities are held for more than one year, you may deduct the FMV of the assets up to 30% of your AGI. If held for less than one year, you may deduct the lesser of FMV and what you originally paid for them, up to 50% of your AGI.
Tangible personal property (TPP)	**If the gift is related to the charity's exempt purpose** (for example, you donate a work of art to a museum), the deduction is the FMV up to 30% of your AGI. However, if the charity sells the item within three years of the date of the gift, the donor may need to recapture—or reverse—the deduction. **If the property isn't related to the charity's purpose** (for example, you donate a work of art to a charity dedicated to cancer research and the charity sells it rather than displays it), the deduction is the amount of your cost basis up to 50% of your AGI.
Real estate	If the property is held for more than one year, you may deduct the FMV, up to 30% of your AGI. If the property is held for less than one year, you may deduct what you paid for it up to 50% of your AGI.
Conservation easements	You may deduct the FMV up to 50% of your AGI, and you have up to 15 years following the donation to use up this deduction. Qualified farmers and ranchers are able to deduct up to 100% of AGI in certain circumstances.

Gift	Potential deduction
Retirement assets—traditional IRAs	If you're 70 ½ or older, each year you can direct up to $100,000 (indexed for inflation) of the pretax money in your traditional individual retirement account (IRA) to go directly to a qualified charity through a qualified charitable distribution (QCD). Once during your lifetime, and in any one calendar year, up to $50,000 (indexed for inflation) of such annual QCD limit may be used to establish one or more split-interest entities, such as a charitable gift annuity (discussed later). That QCD may count toward your required minimum distribution (RMD) for the year. The QCD won't be included in your income for the year, and you won't receive a deduction for the QCD on your tax return that year.
Life insurance policies	If you transfer ownership of an insurance policy, you may deduct the policy's FMV or net policy premiums paid—whichever is less, up to 50% of your AGI—if you irrevocably name a charity as the owner.

DIRECT GIVING

Direct giving is often easy and can make an immediate impact on the charity of your choice.

CASH

Giving cash during your lifetime. It's easy to do and eligible for maximum deductibility. Just write a check or use your credit card to make the donation.

If you itemize deductions, generally you may deduct up to 60% of your AGI for a gift to a public charity.

Leaving cash as a bequest. You can also leave cash as a bequest, which is a transfer that happens only upon your death. You can do this using two methods:

- Naming a qualified charity as a transfer-on-death or pay-on-death beneficiary of a specific bank account
- Designating the charity as a recipient in your will or trust

A generous and smart way to give

Supporting charities via bequests is popular among individuals who feel they can only afford to give a limited amount to charity from year to year because they're concerned about outliving their wealth.

SECURITIES

Publicly traded securities include corporate stocks and corporate bonds, certain government securities (like municipal bonds, Treasury bills and notes), mutual funds, and ETFs. These gifts work well if you:

- Have long-term appreciated securities
- Itemize your deductions and pay income tax
- Want an income or estate tax charitable deduction

Donating appreciated securities is a great way to give. The gift is eligible for a charitable income tax deduction in the amount of the FMV or in some cases, the cost basis. Instead of selling the securities yourself, you can donate them to a charity. The charity can then sell the securities and keep the gross sales proceeds because they're not subject to capital gains tax.

Donating securities upon your death is almost as easy as giving cash. In most states, you can add a transfer-on-death designation to the securities, so the process is the same as that for cash bequests.

HYPOTHETICAL CASE IN POINT

DONATING CASH VS. SECURITIES

Angela and Marcus met when they were students at the same university.

They want to pay it forward by giving a gift of $10,000 to their alma mater. They have $10,000 in appreciated stock (with a cost basis of $1,000 and $9,000 of gain) and $10,000 in cash. Their AGI this year is $100,000. Their combined state and federal capital gains tax rate is 25%, while their combined state and federal income tax bracket is 30%. They can simply write a check or donate the stock. Either way, the charity receives $10,000. But is there a difference to Angela and Marcus?

	Write a check	Donate stock
Gift	$ 10,000	$ 10,000
Deduction	$ 10,000	$ 10,000
Tax savings	$ 3,000	$ 3,000

Angela and Marcus don't see a difference, and they like having cash on hand. So they sell the stock and write a check because it's easier for them.

	Sell stock and write a check	Donate stock
Gift	$ 10,000	$ 10,000
Deduction	$ 10,000	$ 10,000
Tax on sale	$ 2,250	N/A
Net tax savings	$ 750	$ 3,000

Because Angela and Marcus owed $2,250 in capital gains tax from selling the stock, the net tax savings is substantially less than if they had donated the stock.

THE LESSON

If you have appreciated property to donate, your tax savings is larger by donating the property—instead of selling it, paying the capital gains tax and then donating cash.

THE TOTAL COST OF GIVING

	Sell stock and donate cash	Donate stock
Net amount charity keeps	$ 10,000	$ 10,000
Income tax deduction	$ 10,000	$ 10,000
Income tax savings due to deduction	$ 3,000	$ 3,000
Capital gains tax on sale of stock	$ 2,250	$ 0
Net tax savings	$ 750	$ 3,000
Cost of giving	$ 9,250	$ 7,000

THE BOTTOM LINE

The difference is $2,250. Had Angela and Marcus donated the stock, they would have never realized the $2,250 of capital gains tax. Assuming a full deduction for either, donating appreciated assets costs you less and has no cost to the charity.

RETIREMENT ACCOUNTS

As a general rule, money in retirement plan accounts—like 401(a)s, 401(k)s, 403(b)s, 457(b)s and non-Roth IRAs—are subject to federal (and possibly state) income tax when withdrawn.

Lifetime gifts of retirement assets

If you're under 70 ½, the withdrawal is considered taxable income. An early-withdrawal penalty might apply if you're under age 59 ½. For this reason, most donors who are under age 70 ½ won't want to withdraw assets from a retirement plan to make gifts to charity from their retirement assets.

NOTE: Once you make the withdrawal and pay the taxes (and any applicable withdrawal penalties), you're left with only the net amount as cash to gift to your charity.

Qualified charitable distributions (QCD)

If you're 70 ½ or older, each year you can direct up to $100,000 (indexed for inflation) of the pretax money in your traditional IRA to go directly to a qualified charity through a qualified charitable distribution (QCD). Once during your lifetime, and in any one calendar year, up to $50,000 (indexed for inflation) of the annual QCD limit may be used to establish one or more split-interest entities, such as a charitable gift annuity (discussed later). You aren't prevented from taking a distribution in addition to the QCD for the year of the contribution. Note: You must be age 70 ½ or older at the time of the distribution. If you won't reach that age until March, you can't make a QCD in January. In addition, QCD amounts will be reduced by the aggregate amount of any deductible IRA contributions made after age 70 ½. The immediate income tax benefit of a QCD is a reduction of taxable income because the QCD can satisfy your RMD. If you're under the age at which you must begin taking RMDs, this strategy may not give you an immediate tax benefit.

Not including your RMD—or some portion of it—in your taxable income may have substantial benefits, such as avoiding:

- Limits on your deductions
- A potentially higher tax bracket
- Paying taxes on a greater share of Social Security income or paying a greater share of Medicare premiums

NOTE: QCDs can't be made to a private foundation, a charitable supporting organization or a donor-advised fund.

HYPOTHETICAL CASE IN POINT

MAKING A GIFT DIRECTLY FROM AN IRA

Arthur (age 73) has:

- $500,000 in an IRA
- An RMD of $20,000

Arthur directs the plan administrator to distribute $20,000 from his IRA to his favorite charity—a hospital that does work in the treatment and prevention of childhood cancer.

Here's the result:

- Arthur doesn't report the distribution as part of his taxable income.
- The distribution doesn't qualify for a charitable income tax deduction.
- Arthur's AGI is $20,000 less than if he'd taken the distribution.
- With a lower AGI, Arthur may be able to deduct other expenses that would've been limited.
- The gift fully satisfies Arthur's RMD requirements for his IRA.
- Arthur's Medicare premium may be lower next year because his AGI is lower.

DONATING RETIREMENT ASSETS AT DEATH

Donating retirement assets upon death is as simple as naming the charity as your beneficiary. If you designate a charity as the beneficiary of your retirement account, you may want to do the following:

- Acknowledge within your will or trust that your charitable beneficiaries are identified on beneficiary designation forms for your employer-sponsored retirement plans and IRAs, and reiterate your desire that the amounts earmarked for charity be funded first from your retirement plan assets and then from the after-tax assets.
- Check with the plan administrator or institution to determine whether it has any restrictions on designating charities as beneficiaries for retirement accounts. If you're married, check with your plan administrator to determine whether or not your spouse needs to consent to the designation.

Failure to obtain spousal consent could result in a disqualification of the beneficiary designation.

Caution

If your estate plan leaves your retirement assets to both charitable and noncharitable beneficiaries, it may impact the payout options available to your noncharitable beneficiaries. Check with your attorney or tax advisor to be sure it's structured correctly.

HYPOTHETICAL CASE IN POINT

BEQUEATHING RETIREMENT VS. NONRETIREMENT ASSETS

If you have pretax retirement accounts (such as traditional IRAs) and after-tax accounts (e.g., cash accounts) and want to leave a legacy to family and charity, factor in the tax consequences of your bequests. A charitable recipient won't pay any income tax on either bequest. Your children or other heirs will pay income tax on your pretax retirement accounts as they take withdrawals from them. For this reason, you should first allocate retirement (pretax) dollars to your charitable beneficiaries and save the after-tax accounts for your children or other individual beneficiaries.

Maya has $100,000 in cash and $100,000 in an IRA. She wants to give equal amounts to her child (whose effective tax bracket is 22%) and her favorite charity.

If Maya's estate plan leaves:

		50% to each	IRA to charity
Charity receives	Cash	$ 50,000	$ 0
	IRA	$ 50,000	$ 100,000
	Total	**$ 100,000**	**$ 100,000**
Child receives	Cash	$ 50,000	$ 100,000
	IRA	$ 50,000	$ 0
	Tax	$ (11,000)	$ 0
	Total	**$ 89,000**	**$ 100,000**

THE BOTTOM LINE

Maya's child is better off with the cash/after-tax assets. It makes no difference to the charity.

ADDITIONAL CONSIDERATION

Let's assume Maya didn't want to leave an equal inheritance. The same rules apply. She just needs to indicate that her charitable bequests are to be first satisfied by her pretax retirement accounts and that any remainder goes to her child (whether via her will, trust or beneficiary form).

IMPORTANT

Please consult with an attorney before making any bequests to ensure your noncharitable heirs have as long a payout option as may be available.

LIFE INSURANCE

You can use life insurance to make a charitable gift. The cost to you is the premium payments, the amount the charity will receive is the death benefit, which could be much larger. As long as you continue to pay the premiums on the life insurance policy, the charity will receive the proceeds of the policy when you die.

Because life insurance proceeds paid to a charity aren't subject to income and estate taxes, probate costs, and other expenses, the charity receives 100% of your gift.

Gift of policy while living

You can transfer ownership of a life insurance policy to a charity while you're living. However, that means you give up all control of the life insurance policy forever. To do this:

You must:

Irrevocably name the charity as beneficiary, and then legally assign all rights in the policy to the charity and deliver the policy to the charity.

If you do, then:

- Depending on how you structure your gift, you may be able to take an income tax deduction equal to your cost basis in the policy or its FMV
- If you continue to pay the premiums after you assign the policy, you may be able to deduct them on your annual income tax return. The amount of the deduction generally depends upon the type of policy.

Gift of policy upon death

You may not be ready to transfer your life insurance policy while you're alive because you may want to retain access to the cash value or for another reason. If this is the case:

You must:

Name a charity to receive the benefits of your life insurance policy upon your death.

If you do, then:

When you die, the proceeds are included in your gross estate, but the full amount of the proceeds payable to the charity qualify for a charitable estate tax deduction.

HYPOTHETICAL CASE IN POINT

A GIFT OF LIFE INSURANCE

Fernando buys a life insurance policy on his life with a $1 million death benefit. Fernando irrevocably names his favorite charity as the beneficiary and then transfers ownership by legally assigning the policy to the charity—an organization dedicated to ending world hunger—and commits to paying the annual premiums for the rest of his life. (The annual premiums aren't eligible for a tax deduction if Fernando simply names the charity as the beneficiary.)

The charity receives:

$1 million

Fernando receives:

- A charitable income tax deduction equal to the lesser of the interpolated terminal reserve (cash value + unearned premiums - loans) or adjusted basis
- A charitable income tax deduction for each subsequent premium payment

PERSONAL PROPERTY

Tangible personal property (TPP)

When you donate collectibles, rare books, coin or stamp collections, jewelry, artwork, electronics, office equipment, automobiles or more routine household items that were owned for more than one year, you can claim a full deduction for the FMV of the property if the items are used in connection with the charity's main activity or tax-exempt purpose. If the charity sells the donated tangible personal property item, your deduction is limited to your cost basis in the property (what you paid for it, rather than its appreciated value).

Automobiles, boats and airplanes

Many people give vehicles to charity. If a tax deduction is an important consideration, you should check out the charity, check the value of your vehicle and see what your responsibilities are as a donor.

The amount you may deduct depends on what the charity does with the vehicle as reported in the written acknowledgment you receive from the charity. Charities typically sell the vehicles that are donated to them. If the charity sells the vehicle, your deduction is generally limited to the gross proceeds from the sale. If you'd like to learn more about donating vehicles, go to irs.gov and read IRS Publication 4303.

Qualified vehicles

You can only take a charitable deduction if you donate a "qualified vehicle," which is defined as:

- Any motor vehicle manufactured primarily for use on public streets, roads and highways
- A boat
- An airplane

INTELLECTUAL PROPERTY

Intellectual property refers to creations of the mind: inventions, literary and artistic works, symbols, names, images and designs used in commerce. Intellectual property is typically divided into two categories:

1. **Industrial property** like patents, utility models, trademarks, industrial designs and geographical indications of source
2. **Copyrights** like literary and artistic works

A charitable reduction rule requires that when creators or donees of creations donate intellectual property, the deductible amount is limited to the lesser of FMV or the creator's cost of creating the property. This charitable reduction rule requires that the FMV of such property, at the time of the gift, be reduced by the amount of gain that would have been ordinary income or short-term capital gain if the donated property had been sold.

HYPOTHETICAL CASE IN POINT

DONATING TANGIBLE PERSONAL PROPERTY (TPP)

Nadia purchased a painting many years ago for $10,000. It's now worth $100,000. She donated the painting to her alma mater. The taxes Nadia may deduct depend on what the university does with the painting. Here's how it would work:

If:	Then:
The university displays the painting in its museum.	Nadia may deduct the full $100,000 fair market value of the painting.
The university sells the painting.	Nadia may only deduct her $10,000 cost basis.
Nadia assumes that the university will display the painting in its museum and claims a deduction of the full $100,000 fair market value of the painting. Two years later, the charity sells the painting.	If the charity sells the painting within three years of receiving it, the sale can trigger a recapture of the deduction.

CONSERVATION EASEMENTS

A conservation easement, also called a conservation agreement, is a voluntary and legally binding agreement between a landowner and a land trust or government agency. Donating an easement to a land trust or public agency means the landowner giving away some of the rights associated with the land. The easement permanently limits uses of the donated parcel to protect its conservation values, as specified in the Internal Revenue Code (IRC) 170(h). The limits placed on the use of the property typically reduce its value. The landowner may qualify for an income tax deduction based on the reduction of the property's value.

Conservation easements offer private landowners flexibility in protecting their land. Here's an example:

Giving conservation easements is highly technical, so it's important to include your attorney and tax advisor.

The donating landowner might choose to:

Retain the right to grow crops on the donated land while relinquishing the right to build additional structures on it.

The receiving land trust or government agency is responsible for:

Making sure the landowner adheres to the conservation terms of the easement. An easement may apply to all or a portion of the property and may or may not allow for public access to the property. A landowner who donates a conservation easement can sell the land or pass it on to heirs, and future owners of the property are bound by the terms of the easement.

REAL ESTATE

Giving real estate—including homes and commercial property—to charity makes sense when:

1. The property in question has significant long-term appreciation, such that the owner would incur a sizable capital gains tax upon selling it.
2. The property is relatively easy for the charitable organization to liquidate, with minimal chance for incurring liability or major carrying costs before the sale.

You must obtain a qualified appraisal for the real estate that is contributed during the tax year. With real estate, you can also donate a remainder interest; in other words, you can donate your house (or farm) and reserve the right to live there for your lifetime.

HYPOTHETICAL CASE IN POINT

SELL OR DONATE A HOME?

Barbara and Tony bought their home 30 years ago for $100,000. It has appreciated in value and now has a fair market value of $1,100,000. Their mortgage is paid off, their children are adults who live independently, and they want to downsize.

Their current year tax bracket requires them to pay 20% in federal long-term capital gains tax and 5% state long-term capital gains tax. Under current tax law, Barbara and Tony can exempt up to $500,000 from long-term capital gains tax. They will, however, owe tax on the other $500,000 of gain.

	If Barbara and Tony sell their home and donate the profits:	If they donate the home:
They'll pay long-term capital gains tax of:	$ 100,000	$ 0
They'll pay state long-term capital gains tax of:	$ 25,000	$ 0
They'll donate and take a tax deduction of:	$ 975,000*	$ 1,100,000*

* Subject to AGI limitations.

HYPOTHETICAL CASE IN POINT

DONATE YOUR HOME

Remember Angela and Marcus? A few years ago, they made a gift of $10,000 to their alma matter. They're no longer using their lake house, and are considering selling it and using the funds to establish a scholarship fund. They intend to give the full amount they receive from the sale.

They remember the lesson of the difference between donating cash versus donating appreciated property. So instead of selling their house and donating the net proceeds after the commission and capital gains tax, they simply donate their home to their alma mater.

Let's assume that they paid $100,000 for the house and it's now worth $150,000. It's not their personal residence, so they're not eligible for an exclusion from capital gains tax. They've found a realtor who will charge a 5% commission. The charity has a realtor who will donate services, and it doesn't pay a commission.

Their AGI this year is $100,000. Their combined state and federal tax bracket for capital gains tax is 25%, and their ordinary income tax bracket is 30%.

	Sell the house and donate the proceeds	Donate the house
Sale price:	$ 150,000	$ 150,000
Capital gains tax:	$ 12,500	$ 0
Commission:	$ 7,500	None
Net gift to charity:	$ 130,000**	$ 150,000
Income tax savings:	$ 39,000	$ 45,000

THE BOTTOM LINE

Angela and Marcus save $6,000 more in income taxes by donating the house, and the charity receives the same amount. Making the gift was also a lot easier than the sales process. Assuming a full deduction for either, donating appreciated assets costs less and has no cost to the charity.

**The income tax deduction assumes they have an AGI of $100,000 each year for the next five years and deduct the maximum of $30,000 each year until they've fully deducted the gift under the rule that the maximum deduction for gifts of appreciated property is 30% of AGI.

DONOR-ADVISED FUNDS, TRUSTS AND OTHER GIVING ARRANGEMENTS

Trusts and other giving arrangements offer powerful ways to support causes you care about—and can be a strategic part of your overall financial strategy.

DONOR-ADVISED FUNDS (DAFs)

A DAF is an account you establish with a sponsoring public charity specifically to support your charitable giving.

When you open your DAF, you give it a name (yours or whatever name you wish) and then act as both donor and advisor. You make contributions to your fund and you advise the sponsoring public charity on how to invest your contributions. When you're ready to draw on your DAF to give to your favorite organizations or charities, you advise the sponsoring public charity which organizations or charities you want to support by making gifts (also called grants).

Gifts from your DAF can be distributed to your favorite charities over time—now, next year, or whenever you choose. Until then, the funds are invested with the potential to grow tax-free, which can result in more substantial gifts to charity and greater charitable impact.

Is a DAF right for you?

You may want to consider a DAF if you:

- Have a spike in income or are about to retire and a charitable income tax deduction would have a larger impact today rather than in the future.
- Want the flexibility to decide which charities receive grants from year to year. You can change which charity or charities are the beneficiaries of your DAF after you die.
- Want to get your children and grandchildren involved in your family's philanthropic legacy over successive generations.
- Currently make multiple cash gifts to charities each year, but would benefit by giving appreciated securities instead. You can easily make one transfer of your securities to your DAF and avoid the capital gains tax yourself. This makes 100% of the proceeds available for giving because the DAF doesn't pay income tax. You can then advise the sponsoring organization on which charities you want to support through gifts from your DAF.
- Don't currently have enough itemized deductions to exceed the standard deduction and would like to front-load or "bunch" charitable donations in a single year to maximize the income tax benefits while continuing to support the causes you care about.
- Make gifts to many charities throughout the year and have to keep track of multiple receipts. The receipt for your contribution to the DAF is all you need for your records.
- Would like to use a single sizeable contribution of appreciated property to support gifts to multiple charities or want to spread multiple gifts over multiple years.

How DAFs work:

1. The dollars contributed to a DAF are irrevocable gifts and are placed in a fund named by the donor (you).
2. Contributions are invested and any growth is tax-free. The donor retains advisory privileges over investments.
3. The donor advises on the distribution of the assets to a qualified charity.
4. The donor receives a charitable income tax deduction for the amount of the contribution to the DAF in the year of the contribution. No additional deduction is available as grants are made.

Making the move to donor-advised funds

A DAF allows you to make tax-deductible donations with less paperwork and fewer administrative burdens than if you had made multiple gifts. Nevertheless, you should review all your options before contributing to a donor-advised fund because the contribution is irrevocable.

Ways to use DAFs

- **As a teaching tool.** Talk to children or other loved ones about your fund, and encourage them to search for causes and charities on their own. When they find something they feel strongly about, help them make a grant recommendation. It's a great way to start a meaningful dialogue with family about ethics, compassion and giving. You may inspire them to learn more about the world while empowering them to make a difference. You could eventually consider adding them as a co-advisor for the DAF along with you, or as your successor.
- **To share a good year.** Use it whenever you receive a windfall (or an increase in the financial market) and know that your current year tax liability will be higher than normal. The deduction associated with the gift might be worth more.
- **In memoriam.** Honor the memory of a loved one or create a legacy that will last past your lifetime.
- **To prefund retirement giving.** Give strategically now to maximize charitable tax deductions during your peak earning years and to prefund the charitable giving you wish to continue when you retire.
- **As an alternative to a private foundation or charitable bequest.** A DAF can be a low-cost, simpler way to go.

CHARITABLE REMAINDER TRUSTS (CRTs)

A charitable remainder trust (CRT) is an irrevocable trust that pays an income stream to you or another person for a specified period, after which the trust property is distributed to designated charitable organization(s).

If properly structured, a CRT is considered equivalent to a public charity, and the contribution qualifies for a charitable income tax deduction. The amount of the deduction is the amount expected to go to charity at the end of the term of the trust. The expected amount is determined by a present value calculation using a rate set by the IRS each month (called the applicable federal rate, or AFR).

With the recent changes in law under the SECURE Act, CRT planning may become a more attractive tool to use when leaving behind retirement accounts. Under the SECURE Act, many individual beneficiaries no longer have the ability to stretch out the tax liability related to inherited retirement accounts over their respective lifetimes. Instead, they must withdraw the balance and pay the related income tax liability within 10 years of inheriting your retirement assets.

For the charitably inclined, a CRT can serve as a beneficiary of a retirement account and be used to create a lifetime income stream for an individual beneficiary and reduce the related income tax liability concerns—while leaving the balance to a charity upon the income recipient's passing.

The two types of charitable remainder trusts are:

- **Charitable remainder annuity trusts (CRATs)**, which pay a fixed dollar amount each year to the beneficiaries. The payment is a percentage of the original value of the trust.
- **Charitable remainder unitrusts (CRUTs)**, which pay a fixed percentage of the value of the trust (recalculated each year). The payment varies from year to year depending on the trust's value.

FREQUENTLY ASKED QUESTIONS

How do I establish a CRT?

With a gift made during your life or a bequest to be fulfilled upon your death.

How often are payments made?

Quarterly, semiannually or annually.

How long does a CRT last?

For a term of years, not to exceed 20, the lifetime of the donor, the lifetime of a designated recipient of the income stream, or the lifetimes of the donor and one or more persons.

What happens to assets left in a CRT at the end of the trust term?

Any remaining trust assets go to the charitable beneficiary(ies) of the trust.

Can I make additional contributions?

You can't make additional contributions to a CRAT because the annuity amount is fixed from the beginning of the trust term. You can make an additional contribution to a CRUT because the trust is revalued each year to determine the payment.

How are CRTs taxed?

The trust is exempt from income tax, including the net investment income tax, but the payments to any noncharitable beneficiaries generally include a component of income and/or gain on which the recipient may be taxed.

Any additional considerations?

Keep in mind, a low interest rate environment can limit some of the benefits CRTs provide. If interest rates are low, then the remainder interest (the amount that will go to charity) calculated at the time you fund the CRT will be lower as well. This can result in a smaller income tax deduction for the donor than might otherwise be available in a higher interest rate environment.

HYPOTHETICAL CASE IN POINT

CREATING CASH FLOW AND GIVING TO CHARITY (CRUT)

Sonia and David have been married for 47 years. They're both 71 years old. They establish a CRUT with $500,000 of marketable securities with a payout rate of 5%. The actual dollar amount is predetermined annually based on the value of the assets on a date set in the trust document.

Establishing the trust provides Sonia and David:

A lifetime annual distribution equal to 5%, which in the first year is $25,000. If the assets increase in value, so will their distribution. If the assets decrease in value, their payment will decrease.

Upon the death of the first spouse:

The surviving spouse continues to receive the same percentage annual distribution from the trust.

Upon the death of the surviving spouse:

The remaining trust assets pass to the charities named in the trust instrument.

CHARITABLE LEAD TRUSTS (CLTs)

A CLT is the opposite of a CRT. A CLT is an irrevocable trust that pays an income stream to a designated charitable beneficiary(ies) for a specified period after which the trust property is distributed to you (the donor) or a noncharity beneficiary(ies) you designate.

The two types of charitable lead trusts are:

- **Charitable lead annuity trusts (CLATs)** pay an annuity each year during the trust term to the charitable beneficiary(ies). The annuity is a fixed percentage of the original value of the trust or a fixed dollar amount (e.g., 5% or $50,000).
- **Charitable lead unitrusts (CLUTs)** pay a unitrust amount each year during the trust term to the charitable beneficiary(ies). The unitrust is a fixed percentage of the value of the trust recalculated each year (e.g., 5%). The unitrust payment will vary from year to year based on an increase or decrease in the trust's value.

FREQUENTLY ASKED QUESTIONS

How do I establish a CLT?

With a gift made during your lifetime or a bequest to be fulfilled upon your death (under a will or revocable trust).

How often are payments made from my CLT to my charitable beneficiary(ies)?

Quarterly, semiannually or annually.

How long does a CLT last?

The trust term may be of years (not limited to 20 years as with a CRT), the life of the donor (you) or the lives of you and individuals you designate.

What happens to any money left in a CLT at the end of the trust term?

The charitable beneficiary(ies) receive the payments during the trust term and the noncharitable beneficiaries receive the remainder at the end of the trust term, either outright or in a trust.

Can I make additional contributions to my CLT?

You can't make additional contributions to a CLAT because the annuity amount is fixed from the beginning of the trust term. You can make an additional contribution to a CLUT because the trust is revalued each year to determine the payment.

How are CLTs taxed?

Unlike a CRT, a CLT is not exempt from federal income tax. The way the CLT is structured will determine who pays the income tax (and whether an income tax charitable deduction will be available to you, the donor, on when you fund the trust).

Any additional considerations?

A CLAT can be particularly advantageous in a low interest rate environment. Generally, lower interest rates may allow the donor to leave a greater amount of assets to individual beneficiaries free of gift and estate tax after the charitable trust term.

CHARITABLE GIFT ANNUITIES (CGAs)

A CGA is a contract under which a charity, in return for a transfer of cash, marketable securities or other assets, agrees to pay a fixed amount of money to one or two individuals for their lifetimes. The contributed property, given irrevocably, becomes a part of the charity's assets and the payments are a general obligation of the charity.

You (the donor) are entitled to a charitable income tax deduction based on the difference between the present value of the annuity that will be paid to the noncharitable life beneficiary and the fair market value of the assets transferred to the charity. The payments may begin the year of the donation or be postponed until a future time, such as retirement.

How CGAs work

- A person who receives payments is called an "annuitant" or "beneficiary."
- The annuity payments are fixed and unchanged for the term of the contract, and are typically established using rates published by the American Council on Charitable Gift Annuities.
- A portion of each payment is taxable, as the remaining portion is considered to be a partial tax-free return of your (the donor's) gift, spread "ratably" (in equal payments) over the life expectancy of the annuitant(s).
- The annuity rate is a function of the annuitant's age and assumed rates of return that can be earned by the charity as it invests the contributed assets.

HYPOTHETICAL CASE IN POINT

PROVIDING LIFETIME INCOME THROUGH A CGA

Dorothy, age 70, writes a check for $10,000 to her favorite charity in exchange for a charitable gift annuity. The charity pays her $510 each year and she's eligible for $4,250 as a charitable income tax deduction. This is based on the IRS assumption that Dorothy will receive a total of $5,749.64 over her lifetime and the charity nets $4,250.

The example above assumes that Dorothy will live to her expected life expectancy, the charity uses the rate of 5.1% as suggested by the American Council on Charitable Gift Annuities to calculate the annuity payment, and the IRS discount rate used to determine the amount of her available deduction is approximately 2.5%.

PRIVATE FOUNDATIONS

Wealthy individuals or families—typically those whose net worth is $5 million or more—who plan to donate substantial assets to charity have a number of ways to do it. One popular option is to establish a private foundation, which is a federal tax-exempt organization created and operated exclusively for charitable, educational, scientific or similar purposes.

Why choose a private foundation?

Private foundations accomplish a number of purposes. They can:

- Fulfill the family's charitable goals during their lifetimes and beyond.

- Provide an opportunity for family members to work together for the greater good.
- Help each family member build real-life business skills by collaborating on behalf of the foundation.
- Help family generations maintain ties, deepen social consciousness and increase personal fulfillment.

NONOPERATING FOUNDATIONS: A CLOSER LOOK

Nonoperating foundations are the most commonly used foundation type for the transfer of assets to a nonprofit organization. Understanding the basics of this type of foundation is essential to determine if it's the right choice for your situation.

When is a nonoperating foundation an appropriate choice for charitable contributions?

Nonoperating foundations are appropriate for individuals, families, corporations or institutions that plan to make a sizable donation to one or more nonprofit organizations. Charitable planning experts suggest that nonoperating foundations be initially funded with at least $1 million to make economic sense because of the costs involved in establishing and administering them.

How is a nonoperating foundation established?

A nonoperating foundation is formed either as a charitable corporation or as an irrevocable trust under state law. An irrevocable trust foundation is one where no changes can be made after the trust is formed. There are several advantages and disadvantages to each type.

THREE TYPES OF PRIVATE FOUNDATIONS

1

Operating foundations directly engage in their charitable purposes through programs, services or other activities.

2

Nonoperating foundations accumulate investment assets and make distributions to other qualified charities.

3

Pass-through foundations pay out all gifts they receive to public charities or operating foundations within a brief time, perhaps a few months, after the end of the year in which the gift was received.

IRREVOCABLE TRUST FOUNDATIONS

An irrevocable trust foundation is governed by a trust agreement under state law. It's required to:

1. State a charitable purpose, name a trustee empowered to administer, invest and distribute trust assets in accordance with the trust
2. Outline the process for trustee selection and name successor trustees
3. Establish the trust term
4. Clearly indicate that it will abide by appropriate excise tax provisions of the Internal Revenue Code
5. Prohibit lobbying and benefit for private organizations or individuals
6. Include distribution guidelines for grant making and outline the process for dissolution

NONPROFIT CORPORATION FOUNDATIONS

When a foundation is created through a nonprofit corporation, it must file the appropriate incorporation documents with the secretary of state in the applicable state. The foundation is governed by a board of directors that elects officers, and carries out and properly records the foundation's activities. This structure is most often used because of its greater flexibility and its liability protection.

HOW DO THEY COMPARE?

Irrevocable trust foundations	Nonprofit corporate foundations
A trust is less formal in the way it's established and operated. No regular meetings or minutes are required under the trust code (but documenting the decision-making process for the IRS and others may impose the same obligation).	The corporate approach is more formal, requiring articles of incorporation, bylaws, regular meetings and annual reports filed with the state.
Amending the charitable trust instrument may be difficult, possibly requiring court approval or notice to the state attorney general.	Corporate bylaws can be drafted to facilitate amendments that don't affect the charitable status.
Trustees have a fiduciary duty (and liability) imposed by the trust code, in addition to IRS rules.	A corporation may provide greater protection from personal liability to its board members, and insurance may be easier to obtain.

DONOR-ADVISED FUND OR PRIVATE FOUNDATION: WHICH FITS YOUR GIVING?

There are substantial setup and operational differences between the two.

	Donor-advised fund	Private foundation
Start-up costs	None	$3,000 to $6,000
Ongoing costs	Applicable administrative and investment fees	Potential CPA fee for tax return; annual report fee for corporations
Investment options	Can range from limited pools of funds to robust fund menus	Diverse options
Required annual distributions	None	Generally 5%
Donor's required effort	Minimal; donor only needs to advise regarding timing and amount of grants	Ongoing time to comply with trust or corporate formalities
Gift giving	Distributions limited to public charities	Distributions can be made to anyone so long as in furtherance of charitable purposes
Tax deduction for contributions of capital gain property	30% AGI limit	20% AGI limit (for nonpublicly traded stock the deduction is limited to cost basis)
Tax deduction for cash contributions	60% AGI limit	30% AGI limit

FLEXIBILITY AND GRANTMAKING

- **DAFs.** The community foundation or sponsoring charity of a DAF has final approval on all grantmaking. Some sponsors allow grantmaking to any IRS-approved 501(c)(3) public charity, others focus on a geographic region or area of interest.

- **Private foundations.** In contrast, private foundations provide far greater flexibility, including grants directly to individuals for scholarship, hardship and emergency assistance. Such flexibility is becoming more important as many individuals and families move toward higher-engagement philanthropy. As the costs of ongoing private foundation management continue to decline, many families of moderate wealth (as opposed to "mega" wealth) are choosing private foundations to facilitate strategic philanthropy and access flexibility not offered with other options.

COMPENSATION AND EXPENSE REIMBURSEMENT

A donor's family members may be named as directors of a not-for-profit corporation, trustees of a charitable trust establishing a foundation or as members of a donor-advised fund advisory committee.

- **DAFs.** Donor-advised funds can't make distributions to individuals and can't compensate the advisory committee for services rendered. Strict rules and harsh penalties for making a disallowed distribution to the donor or a family member make it inadvisable to make a distribution even for actual expenses incurred while pursuing the fund's philanthropic goals.

- **Private foundations.** The directors of a private foundation may be paid reasonable compensation for their services and may be reimbursed for expenses directly related to the organization. Private foundations must be aware of and follow self-dealing rules.

INCOME TAX DEDUCTIBILITY LIMITS

The IRS treats donor-advised funds and private nonoperating foundations differently:

- **A donor-advised fund (DAF)** is treated as a public charity to which a charitable income tax deduction for cash is allowed of up to 60% of the donor's AGI.
- **A private nonoperating foundation** is subject to a deduction of up to 30% of the donor's AGI.

In addition, the limits on deductions for capital gain property differ:

- A 30% AGI limit is imposed on outright gifts to a DAF.
- A 20% AGI limit is imposed on gifts of publicly traded stock to a private foundation. Only appreciated publicly traded stock qualifies. For owners of closely held interests, the deduction is limited to the security's original value for tax purposes.

DAFs COMPARED WITH PRIVATE FOUNDATIONS

If convenience or deductibility limits are the critical factors in your gift-making decision, then a DAF—with its 15-minute set-up time, low initial contribution and 60% deductibility limit—may be the best choice for you and your family.

TAX DEDUCTIONS AT A GLANCE

DAFs, private foundations and outright gifts

Deductible item	DAF (AGI limit)	Private foundation (AGI limit)	Outright gift (AGI limit)
Tax deduction for cash contributions	60%	30%	60%
Tax deduction for contributions of capital gain property	30%	20%	30%

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A TIAA advisor can review your options with you

Whether you think you may have a little or a lot to give, a TIAA advisor can help you determine how much you can afford, and the income and estate tax consequences of various options.

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