Your *Trust* Matters

August 2024 Newsletter

MidWest*One*™ PRIVATE WEALTH

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Charitable Gifting Through Trusts

Charitable giving can play an important role in many estate plans. Philanthropy cannot only give you great personal satisfaction, it can also give you a current income tax deduction, let you avoid capital gains tax and reduce the amount of taxes your estate may owe when you die.

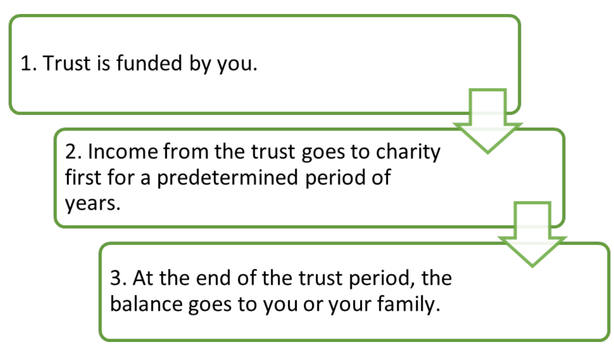
There are many ways to give to charity. You can make gifts during your lifetime and at your death. You can make gifts outright or use a trust. You can name a charity as a beneficiary in your will or designate a charity as beneficiary of your retirement plan. One of the most unique ways to contribute to a charitable cause is through the use of a charitable trust.

Although you can name a charity as the sole beneficiary of a trust, you can also split the beneficial interest (this is referred to as making a partial charitable gift). The most common types of trusts utilized to make partial gifts to charity are the Charitable Lead Annuity Trust (CLAT) and the Charitable Remainder Annuity Trust (CRAT).

How a Charitable Lead Annuity Trust Works

When you establish and fund a CLAT, it first pays income to a charity for a certain period of years. When the trust period ends, the trust principal passes back to you, your family members or other heirs. The trust is known as a charitable lead trust because the charity gets the first, or lead, interest. A CLAT can be an excellent estate planning vehicle if you own assets that you expect will substantially appreciate in value. If created properly, a CLAT allows you to keep an asset in the family and still enjoy some tax benefits.

Example: John, who often donates to charity, creates and funds a $2 million CLAT. The trust provides for fixed annual payments of $100,000 (or 5% of the initial $2 million value) to ABC Charity for 20 years. At the end of the 20-year period, the entire trust principal will go outright to John's children. Assuming the trust assets appreciate over this period, John's children could receive their remainder interest at a substantial tax advantage.



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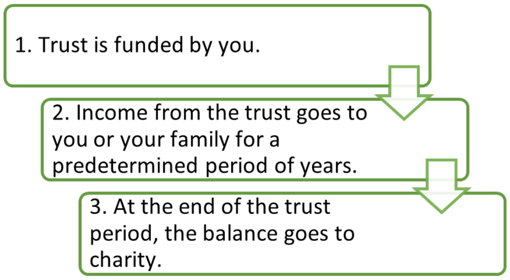
How a Charitable Remainder Annuity Trust Works

A CRAT is the mirror image of the CLAT. With a CRAT, trust income is payable to you, your family members or other heirs for a period of years, then the principal goes to your favorite charity. A CRAT can be beneficial because it provides you with a stream of current income- a desirable feature if there won't be enough income from other sources.

Example: Jane, an 80-year-old widow, creates and funds a CRAT with real estate currently valued at $1 million, and with a cost basis of $250,000. The trust provides that fixed quarterly payments be paid to her for 20 years. At the end of that period, the entire trust principal will go outright to her husband's alma mater. In taking this action, Jane receives a fixed annuity, avoids capital gains tax on $750,000, and receives an immediate income tax charitable deduction which can be carried forward for five years. Further, Jane has removed $1 million, plus any future appreciation, from her gross estate.



These are but a couple of unique ways trusts can be used to incorporate philanthropy into your estate plan. Please reach out to **MidWest*One* Private Wealth** to discuss these and other charitable gifting strategies.