Charitable Giving Methods

Many people assume that the hardest part of donating is the choice of charity or maybe even the decision to part with the money in the first place. However, when presented with all the ways to give, donors often find the world of charitable giving to have more choices than they anticipated. You can use the chart on the following page to easily compare different methods of charitable giving and determine which method(s) may work best for your charitable giving strategy.

Elements of Charitable Giving Methods

Different giving methods can provide a variety of benefits to both donor and charity. Many factors affect each method's potential and limitations.

Size of gift

While charities appreciate any gifts they receive, not every giving method fits every donation size. Some methods require thousands of dollars to setup and should not (or cannot) be used for smaller gifts. On the other end, giving a very large gift through an inappropriate method might prevent it from reaching its full potential value. Small gifts are those under $5,000 while mid-sized gifts start at $5,000 and go up to around $50,000. A large gift will typically be anything greater than a mid-sized one. Each method lists a common, efficient size but is not strictly limited to it; likewise, the cash values of each size listed here are generalizations. It is always wise to ask a financial advisor for recommendations on the giving method best suited for your prospective donation.

How it works

The key operations of the charitable method. The descriptions given in the chart are only a primer and are in no way exhaustive. Giving methods (particularly trusts) can be extremely complex and several require legal guidance when being established.

Typical time of gift

The period when a gift can be made or goes active. For some giving methods, timing doesn't matter (provided taxes are considered); in other cases, your financial circumstances or life stage may dictate when it's most advantageous to give. For two methods, both involving life insurance policies, the process can be set up and managed at any time, but the gift cannot actually be made until the donor's death.

> Understanding each part of the overall process can help donors narrow down their giving options until they find the one that works best for them.

Major feature

Though hardly exhaustive, the major feature listed is typically the most appealing aspect(s) or greatest challenge of a giving method while it is being set up or carried out.

Tax deduction

Government-provided tax deductions are one of the most important aspects of giving. A charitable tax deduction allows you to remove your donation from your income (or estate) so that you are not taxed for money you did not keep. Depending on the type of charity, these deduction limits are either 60 percent of adjusted gross income when making standard gifts and 30 percent of income when donating capital gains property or 30 percent and 20 percent, respectively. In the case of appreciating trusts, a deduction can be made for the charity's "present interest" in the gift – the part of the initial gift that will grow into the amount the charity will ultimately receive.

Retained benefits

Some donations (through trusts and private foundations) can give back to a donor. Money returned to the owner from a donation is referred to as "retained interest" or "retained benefits." The retained benefits of trusts are the monetary distributions given back to donor (or another beneficiary). The retained benefit of private foundations is the ability to distribute some fund resources as payment to individuals who provide services for the foundation, including, in special cases, family members. Tax deductions are never given for any retained benefits. ■

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	Size of Gift	*How It Works*	*Typical Time of Gift*	*Major Feature*	*Tax Deduction*	*Retained Benefits?*
Direct Donation	Small or Mid	An outright gift to a charity. Ownership is transferred immediately. Amount of gift is also amount of deduction.	Anytime	Extremely simple and fast; no third parties needed.	Full	No
Donor Advised Fund (DAF)	Mid to Large	A gift set up as an investment fund that is managed by a sponsoring bank or charity. The fund then makes regular donations to a charity the donor has recommended.	Anytime	DAFs usually cost some money to create and manage, but they can greatly increase the total amount of money received by a charity.	Full	No
Charitable Retained Annuity Trusts (CRATs)	Large	A large donation given to a trust that invests the money and makes annual payments back to the grantor. At the end of trust's term, the remainder goes to the chosen charity.	High Income Year	Since appreciated assets can be donated without tax, CRATs are an ideal way to maximize a gift when a donor owns stocks that have greatly increased in value since purchase.	Charity's Present Interest	Yes
Charitable Lead Annuity Trusts (CLATs)	Large	The mirror of CRATs, CLATs are donations that are invested and give yearly payouts to the charity of choice. At the end of the term, the non-charitable beneficiary receives the remainder.	High Income Year/ Death	Because it requires the grantor to pay taxes on retained income, it is possible for a long term CLAT to pass its remainder to beneficiaries tax free.	Charity's Present Interest	Yes
Charitable Gift Annuity Agreement (CGA)	Mid to Large	A donation made to a charity with a contract that the charity will pay regular annuities to the donator or other beneficiary for a set period. Essentially a CRAT that is managed by a charity instead of a trust.	Retirement	Many people purchase annuities at retirement. CGAs take the money that would normally go to the insurance company and give it to a charity instead. However, CGA annuities are not as competitive as standard ones.	Charity's Present Interest	Yes
Direct Beneficiary of an Account	Small or Mid	A declaration on a 401(k), IRA or insurance policy that makes a charity the beneficiary of the account/policy in the event of death.	Death	Though very easy to declare, naming a charity as beneficiary should only be done after family and estate needs have been fully considered.	Full (Estate)	No
Outright Gift of Insurance Policy	Small or Mid	The ownership of the donor's insurance policy transfers to a charity. The donor continues to pay premiums and the charity receives full death benefit.	Death	While more complex than making a charity beneficiary, this method not only removes the policy from the donor's taxable estate but also deducts premium payments from regular income during life.	Full (Income)	No
Creating a Private Foundation	Large	A private foundation is an organization that a donor creates and operates. Typically run by a family, a small board of trustees accepts donations and distributes them as needed.	Anytime	Private foundations allow an individual (or family) involvement with charitable giving and maximum control over where funding goes. Unfortunately, this level of control requires forfeiture of some tax benefits.	Full (Limited to only 30% of Income)	Partial
Private Operating Foundation (POFs)	Very Large	POFs are similar to standard private foundations except they are directly involved with organizing and executing charitable actions. In many ways, POFs act like privately owned charities.	Anytime	Same direct control as offered by a standard private foundation, but POF donations allow for the full limit of income tax credit (50%).	Full	Partial