GIVING IT AWAY

Four ways to incorporate charitable giving into your estate plan.

Terry Duncan likes to start with the big picture—the forest rather than the trees. "I want to get to know my clients' situation, financial position, goals and risk tolerance, as well as their dreams," says Terry, a Schwab Financial Consultant based in San Francisco. "More often than not, that conversation helps my clients open up and share things they wouldn't otherwise mention."

Armed with that information, Terry can begin helping her clients plan for their financial goals, which often leads to larger discussions around short- and long-term savings goals, retirement, charitable giving and estate planning.

Terry has conducted dozens of these planning discussions during her three years at Schwab, and she's starting to notice a trend: Increasingly, her clients seem to be interested in integrating charitable giving into their estate plans. "Many of the clients I work with have expressed a desire to use their hard-earned money to help make the world a better place," Terry says.

When a client expresses interest in giving back through his or her estate plan, Terry sets up a discussion to go over the basics of giving, such as the potential tax benefits and the various channels through which a client can give. Once she and the client have had a general discussion, Terry then recommends a consultation with a qualified tax advisor or estate-planning attorney.

"My goal is to arm clients with the information they need to have informed discussions with their tax- and estate-planning professionals about the benefits and considerations of charitable giving," says Terry.

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If you find all of the tax considerations and giving options overwhelming, take heart in knowing that it's not as daunting as it sounds. Carrie Schwab-Pomerantz, CFP®, President of Charles Schwab Foundation and Senior Vice President of Schwab Community Services at Charles Schwab & Co., Inc., says that building charitable giving into an estate plan is something almost anyone can do.

"There are several good ways to provide for your family while also giving to your favorite causes," says Carrie. "And doing so is a wonderful way to extend your generosity and leave a meaningful legacy."

Here are four ways to incorporate charitable giving into your estate planning.

1 WILL

Carrie explains that the simplest way to include a charitable contribution in your estate plan is through your will. The amount you give won't reduce your income taxes, but it will reduce your liability for estate tax purposes, helping to maximize the final value of your estate for your heirs.

2 RETIREMENT ACCOUNTS

Another straightforward and tax-effective way to support a charity is by donating a retirement account. You simply designate the charity as the beneficiary on your account. Because the charity is exempt from both income and estate taxes, it can receive 100% of the account's value after liquidation. You can then leave your heirs non-retirement assets, which don't have the same income tax burden.

3 SPLIT-INTEREST TRUSTS

If you'd like to donate assets to a charity but retain some of the benefits of holding those assets, a gift of split interest might be a good option. With split-interest gifts, the donor opens and funds a trust in the charity's name and receives a charitable income tax deduction at the time of the transfer. Opening a trust allows the donor to retain some rights to the property and also reduces the value of his or her taxable estate. In addition, the donor may avoid capital gains on the assets transferred to the trust.

For example, Carrie knows a couple who met in college as undergraduate students and continued their graduate studies at the same university. "Despite having fairly modest assets, this couple wanted to return something to their *alma mater*," Carrie explains. "After careful consideration, they decided to transfer a portion of their assets into a trust that would provide them with income during their retirement years but that would ultimately pass on to the university."

Depending on your personal and charitable giving objectives, there are several different types of charitable trusts to consider, including:

- **Charitable remainder trust (CRT):** A CRT provides either a fixed payment or a fixed percentage to the donor (or another beneficiary) every year. In either case, the amount must be at least 5% but not more than 50% of the property's fair market value. The trust is irrevocable and must make payouts at least annually. The term can be for the life of the donor or for a set number of years. At the end of the term, the remainder goes to the designated charity.

  If your primary goal in setting up a CRT is to maximize the payments during your lifetime, consider whether the trust assets have the potential to appreciate. If they do, you're better off receiving a *percentage* of the trust's value every year. If you believe the assets will decline in value, you're better off receiving a *fixed payment*.
- **Charitable lead trust (CLT):** A CLT is the reverse of a CRT. It provides income to a charity for a set number of years, after which the remainder passes to the donor's heirs. This type of trust is most commonly used by individuals who don't need the lifetime income from a particular asset. The trust often is structured to get an income tax deduction equal to the fair market value of the property transferred, with the remainder interest valued at zero to eliminate a taxable gift. Like a CRT, a CLT is irrevocable, so consider both options carefully before implementing.

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—Terry Duncan, CFP®,
Schwab Financial Consultant

- **Pooled income fund (PIF):** A PIF is a trust maintained by a public charity. Individual donors contribute to the fund, which works like a CRT with the charity acting as the administrator. As with a CRT, the donor receives income during his or her lifetime. After the donor passes away, control of the funds goes to the charity. Contributions to a PIF qualify for charitable income, gift and estate tax deductions. A PIF doesn't require the legal expense of creating an individual trust.

4 DONOR-ADVISED FUND

A donor-advised fund can be a simple, tax-efficient way to give during your lifetime and beyond. You can open this type of account with a tax-deductible contribution and then make grants to any public charity over time. You can contribute a variety of assets—including appreciated securities, real estate and cash—that are tax-deductible. Not only do you realize the tax deduction each time you fund the account, but if you choose to donate appreciated securities, you may also be able to avoid capital gains taxes. The donor-advised fund account sponsor, such as Schwab Charitable™, generally handles the administrative details.

Additionally, donor-advised funds can support legacy and estate planning—you can name the fund as the beneficiary of a will, retirement account or trust, thus helping to reduce your taxable estate.

To continue your legacy of giving, you can name individuals, including your children, as successors on your account. You can also name several charities as beneficiaries. If you have a larger estate and want one or more charities to benefit for a number of years after your death, you may want to consider a charitable legacy program offered by some donor-advised funds. These programs allow you to spread out the grants, extending your charitable legacy and helping charities make better use of the gifts over time.

"Many of my clients have found Schwab Charitable's donor-advised fund account to be a good way of integrating giving into their estate plans," Terry says. "It allows them to contribute a wide range of assets and realize an immediate tax deduction, but also allows them to build a giving plan for their favorite charities with the flexibility to execute the plan over time."

SHARE YOUR PLANS WITH YOUR FAMILY

Finally, Carrie recommends that you openly discuss your estate plan with your family so there are no surprises. "If charitable giving is a part of your plan, it's wise to share your intent with your kids ahead of time," says Carrie. "Make sure they understand your reasoning, and remember, you're not just talking about giving away money—you're also talking about creating a legacy. This might be something your kids not only will admire, but also might want to carry on." ■

Let's Talk
Call your Schwab Consultant to discuss how charitable giving can be incorporated into your estate plan.

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A donor's ability to claim itemized deductions is subject to a variety of limitations depending on the donor's specific tax situation. Consult your tax advisor for more information.

Contributions of certain real estate, private equity or other illiquid assets are accepted via a charitable intermediary, with proceeds of your donation transferred to your donor-advised account upon liquidation. This intermediary considers donations on a case-by-case basis, and assets typically must be valued at $250,000 or more. Call Schwab Charitable Fund at **800-746-6216** for more information.

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