



# "Giving" Advice



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## ABOUT YOUR FOUNDATION

Since 1973, the **Toledo Community Foundation** has provided individuals, families and businesses interested in the well-being of our community with an *efficient, effective, low-cost, professionally managed* mechanism to achieve their charitable goals.

For philanthropists wishing to maximize the impact and life of their charitable gifts, the Foundation provides *resources for thoughtful giving*. Using its expertise and personalized services, **Toledo Community Foundation** helps donors

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## Charitable Giving With a Special IRS Incentive

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For some donors, charitable planning involves the analysis of the tax benefits of various complex strategies that include the creation of trusts.

A planning vehicle that becomes much more intriguing in "down markets" is the charitable lead trust that works quite differently than the better known charitable remainder trust.

With the charitable remainder trust, you (or your designee/beneficiary) receive a portion of the income and the qualified charity receives the remainder of the trust assets, based on either a fixed term of years or at your death. A charitable lead trust allows income to flow to the charity and the asset or principal balance to be returned to the donor (a grantor lead trust) or to his or her heirs (a non-grantor lead trust.)

The tax rules depend on the type of charitable trust. If the trust assets are returned to you, you get a charitable tax deduction when the trust is created. If the assets are passed on to heirs, estate or gift taxes can be reduced or in some cases, eliminated, since the assets would be moved out of your estate.

The special nature of the CLT is that the IRS predicts the rate of growth of the assets in the trust and assigns the trust a rate that applies for the entire trust term. Attorneys look carefully at this rate because gains that are above the IRS rate may be able to be transferred tax-free to heirs.

The rate changes monthly and for the month of February, that rate is at an historic low of 2 percent. This means that the growth above a 2 percent gain for the assets in the trust (if it had been created this month) could be inherited by the donor's heirs tax-free at the expiration of the

transform their philanthropic impulse to measurable community impact. Beyond the gifting of assets, the Foundation helps donors identify issues of importance to them and *inspires engagement* with community organizations addressing these issues, thereby maximizing the impact of charitable gifts and creating a greater sense of fulfillment.

term of the trust.

Charitable lead trusts, whether grantor or non-grantor, can be set up as unitrusts or annuity trusts. The unitrust allows the charitable recipients to receive a fixed percentage of value of the trust each year, which means that the amount of the distribution can fluctuate up or down, depending on the rise and fall of the underlying investment portfolio or asset.

If the trust is set up as an annuity trust, the charitable recipients receive a fixed dollar amount that is a stable source of revenue for the charity and that also may leave more for heirs if the value of the asset continues to grow.

There are different reasons to set up a grantor charitable lead trust versus a non-grantor charitable lead trust. In the case of the grantor trust, while there is an income tax deduction that might be highly beneficial in a year where you have high income, you would also be taxed on income produced by the trust in that year, including the income distributed to the charity.

The non-grantor charitable lead trust is favored by high net worth individuals with growth assets who want to reduce or eliminate tax on the growth of the assets and who also want to receive the benefit of gift and estate tax deductions when the assets are transferred to heirs.

The grantor does not receive a charitable income tax deduction, but the income is not taxable to the grantor. The income earned within the trust is taxed according to trust rates and the trust receives an income tax deduction for the amount paid to the qualified nonprofit.

While this type of planned gift is appropriate for relatively few donors, those who have income producing assets (like rental real estate) or assets that qualify for valuation discounts (like family limited partnerships) might find this kind of charitable giving attractive. If so, this is a very good time to investigate the pros and cons more deeply.

This is a complex strategy requiring sophisticated advisors and specialized legal services. However, if you do your due diligence, the current economic conditions might enable you to make a much larger charitable gift than you thought you could, while serving you well as part of your overall estate plan.

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