Ways the Middle Class Can Make a Difference for Charity

You don't need to be wealthy to make an impact and get a win-win.

Provided by *Benedict A. Mitchell Jr.*

Do you have to make a multimillion-dollar gift to a charity to receive immediate or future financial benefits? No. If you're not yet a millionaire or simply a "millionaire next door," yet want to give, consider the following options which may bring you immediate or future tax deductions.

Partnership gifts. These gifts are made via long-term arrangements between donors and recipient charities or non-profits, usually with income resulting for the donor and an eventual transfer of the principal to the charity at the donor's death.

For example, a *charitable remainder trust* also allows you to pay yourself a dependable income (typically for life) and then distribute the remaining trust principal to charity. A *charitable lead trust* offers you the potential to reduce gift and estate taxes on assets passing to your heirs by making annual charitable gifts; your beneficiaries get the leftover trust assets at the end of your life or the specified trust term. You could even name a *charitable life income arrangement* as the beneficiary of your IRA.[1,2]

If you don't have enough funds to start one of these, you might opt to invest some of your assets in a pooled income fund offered by a university or charity. Your gifted assets go into a "pool" of assets invested by a fund manager; you get a *pro rata* share of the income of the fund for life, and when your last income beneficiary passes away, the principal of your gift goes to the school or charity.

If you like the idea of a family foundation but don't quite have the money and don't want the bureaucracy, you could consider setting up a *donor-advised fund.* You make an irrevocable contribution to a third-party fund, realizing an immediate tax deduction; the fund invests the money in an account you create. You advise the fund where the money goes and how it grows, but the fund makes the actual grants to nonprofits.

Lifetime gifts. These are charitable gifts in which the donor retains no powers or other controls over the gift once it is made. A lifetime gift of this sort is not included in what the IRS calls your Gross Estate (but taxable gifts are used in calculation of estate tax).[3]

Lifetime gifts also include *outright gifts* of cash or appreciated assets such as stocks or real estate. A gift of appreciated stock could bring you a charitable deduction to lower your income tax, and help you avoid capital gains tax linked to the sale of the appreciated shares.

Through a *gift of appreciated property,* you can transfer a real estate deed to a school or charity and get around capital gains taxes that may result from a property's sale. If you have held the appreciated property for at least a year, the gift is deductible up to 30% of adjusted gross income with no capital gains tax on the appreciation. You could even arrange a *retained life estate,* in which you deed your home to a charity or non-profit while retaining the right to live in it as your primary residence for the rest of your life.[4]

Estate gifts. These are deferred gifts you make after your lifetime, without impact on your current lifestyle. You can make a *bequest* to a charity through your will or a living trust without generally incurring estate taxes on the gift amount. A *gift of life insurance* to a university or charity can give you an immediate income tax deduction for the cash surrender value of a paid-up policy, and possible future deductions. You can also make an *IRA gift* or *retirement plan gift* effective upon your death, with the non-profit organization receiving some or all of the assets as you wish.[5,6]

The caveats. As your income increases, you may face limits on the amount of charitable gifts you can deduct. If you are retired, an increase in income can also cause more of your Social Security benefits to be taxed. The IRS says that your charitable deductions for any tax year cannot be more than more than 50% or your adjusted gross income (possibly 30% or 20% depending on the specifics of your gifts). But if you exceed such limits, the IRS lets you carry forward excess contributions for up to five years.[4]

Would you like to learn more? Okay, so they may not name a hospital wing or a library after you. But your charitable gifting can have real effect even if you don't have a fortune. Keep in mind that your unique circumstances need to be weighed before making any decision. As with all tax and estate planning, please consult your financial advisor, attorney or tax advisor to affirm that you are in a position to fully benefit from charitable deductions.

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