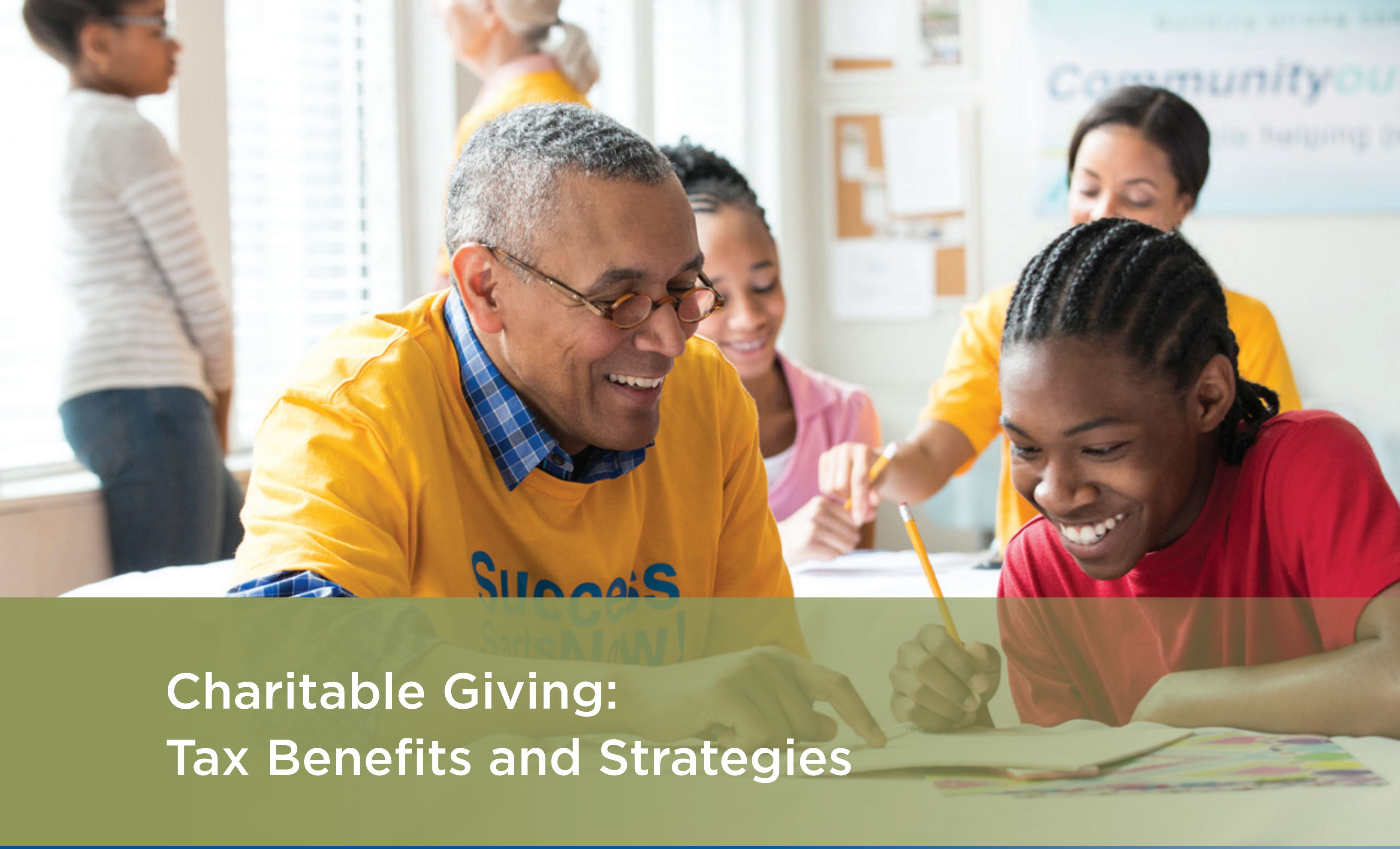

Charitable Giving:
Tax Benefits and Strategies

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Professional Education Network™

Wolters Kluwer

Edward Jones
MAKING SENSE OF INVESTING

Contents

Introduction

Many people, regardless of wealth, contribute to charitable causes during their lifetime or leave a legacy through their estate plan. Though the primary reason for giving may be to support a specific organization or cause, donors may also receive income tax or estate tax benefits. This brochure provides an overview of the tax benefits of charitable giving, the tax treatment of donating different types of assets, and strategies that may help accomplish clients' philanthropic and tax-planning goals. The discussion includes basic techniques such as wills and beneficiary designations, as well as more complex vehicles such as donor-advised funds, trusts and foundations.

Each person's situation is unique. Professionals, including estate-planning attorneys, tax advisors and financial advisors, can help their clients outline charitable goals, suggest appropriate assets to donate and explore options for tax-efficient gifting. If clients wish to donate more complex assets or have larger estates, they may need to expand the professional team to include experts on asset valuation or life insurance strategies.

Overview of Tax Benefits

Individuals who make charitable gifts during their lifetime may qualify for an income tax deduction and potentially reduce the size of their taxable estate. Gifts made at death generally qualify for a federal estate tax deduction. Because state laws vary, and some states do not impose estate or inheritance taxes, comments in this guide generally apply only to federal estate and gift taxes.

Income Tax Benefits

Donors that make contributions to a qualified charity are generally entitled to a charitable deduction if they itemize deductions on their income tax return. The amount of the charitable deduction depends on:

- The type of property contributed
- The donor's adjusted gross income (AGI)
- The type of charitable organization to which the gift is made

If the donor's charitable contributions for the year exceed the AGI limits, the excess can generally be carried over for up to five years. For more information, review the Internal Revenue Code and other IRS materials, such as IRS Publication 526, *Charitable Contributions*.

Individuals who itemize deductions may want to consider making charitable gifts in years when they are in a higher income tax bracket to potentially reduce their income tax liability. However, with the increase in the basic standard deduction in 2018 to $12,000 for individuals and $24,000 for married couples filing jointly, potential donors may have less incentive to itemize and thus claim a charitable deduction. Clients who do not itemize deductions may still have opportunities to reduce the amount of income tax due by making charitable contributions. For example, if clients are in the habit of making annual charitable gifts, they might consider "bunching" donations. Instead of gifting each year, clients could accumulate assets to make two or three years' worth of donations in a single year. If their total deductions exceed the standard deduction, the client may find it beneficial to itemize and qualify for a charitable deduction.

What Counts as a Qualified Charity?

Charitable contributions are only deductible if made to a qualified organization.

Examples include:

- Religious organizations, including churches, synagogues, mosques and temples
- Educational institutions, including private schools, colleges and universities
- Nonprofit hospitals
- Organizations that provide social services (e.g., American Red Cross, Goodwill, United Way)
- Community foundations
- Fundraising organizations that support other public charities

Qualified Charitable Distributions from IRAs

A qualified charitable distribution (QCD) from a traditional IRA (including an inherited IRA) is another way to potentially reduce the income tax due. While the donor cannot take a charitable deduction for the contribution, a QCD can satisfy all or part of the donor's required minimum distribution and is excluded from the donor's taxable income for the year of the gift.

The requirements to make a QCD include:

- The IRA holder must be age 70½ or older.
- The maximum annual exclusion cannot exceed $100,000.
- The funds must be transferred directly from the IRA custodian to a qualified charity, generally a 501(c)(3) organization.
- The donor cannot receive any benefits from the charity as a result of the gift.

The following charitable vehicles generally are not eligible to receive a QCD:

- Donor-advised funds
- Private foundations
- Supporting organizations (charities supporting other exempt organizations)
- Planned giving vehicles, such as a charitable gift annuity, pooled income fund or charitable remainder trust

Individuals may want to consider making a QCD when they do not need the income from the IRA and wish to donate to charity and minimize AGI. Reducing AGI may help individuals lower their overall tax liability and avoid certain rules based on the amount of AGI, such as the income-related monthly adjustment amount surcharge for Medicare premiums. A QCD may also be an option for taxpayers who do not itemize deductions and therefore cannot claim a federal income tax deduction for the charitable contribution, or for taxpayers whose state of residence does not allow a deduction for a charitable contribution for state income tax purposes. In those cases, clients can take the standard deduction and reduce their taxable income.

QCDs are limited to the amount of the distribution that would otherwise be included in income. If the IRA includes nondeductible contributions, the distribution is first considered to have been paid out of otherwise taxable income, and nondeductible contributions are excluded. Thus, if the distribution from an IRA does not meet the requirements for a QCD, it is taxable to the IRA holder.

Estate and Gift Tax Benefits

Unlike the income tax charitable deduction, the federal estate and gift tax rules generally allow unlimited charitable deductions for the full value of property given by an estate outright to charity, regardless of the type of property donated or the appreciation in the property. For federal estate tax purposes, any gifts made to charity at death allow for a deduction on the estate tax return, reduced by any administrative expenses paid out of the bequest.

Tax Treatment of Gifts by Asset Type

Clients may not be aware of the variety of assets they can donate to charity, or that the tax benefits vary by asset type. Professional advisors can assist their clients in evaluating the potential tax benefits of different charitable gift types and selecting appropriate assets to donate.

Cash Gifts

Many donors prefer the simplicity of making a cash donation to a charity. When itemizing deductions, the donor can generally deduct the full amount of the cash contribution, up to 60% of AGI for gifts to public charities and up to 30% of AGI for gifts to private foundations.

Tax Deduction Eliminated for Sports Fans

Starting in 2018, charitable contributions to a college or university that give the donor priority to purchase tickets to an athletic event are no longer tax-deductible. Previously, donors could deduct 80% of the gift amount.

Marketable Securities

Individuals who donate long-term (held longer than 12 months) appreciated assets such as stocks and mutual funds may receive multiple tax benefits. By transferring the asset to charity – as opposed to selling it and donating the proceeds – the donor avoids incurring capital gains on the sale and removes the asset from the estate for estate tax purposes. Additionally, donors who itemize their deductions generally qualify for a charitable deduction equal to the asset's fair market value, up to 30% of AGI for gifts to public charities and 20% of AGI for gifts to private foundations.

From an income tax standpoint, individuals are generally better off selling securities with a loss and donating the cash proceeds to charity. That way, they may be able to use a capital loss from the sale to offset any capital gains and a portion of ordinary income they may have during the year.

Real Estate

As with appreciated marketable securities, donors who donate appreciated real estate to charity avoid paying capital gains tax on the sale of the property and potentially reduce future estate tax by removing the real estate's value from the estate. Gifts of real estate with long-term capital gain may qualify for a charitable deduction equal to the property's fair market value, up to 30% of AGI for gifts to public charities and 20% for gifts to private foundations.

Not all charities are equipped to accept real estate or manage the property's sale, so clients should first check the charitable organization's requirements. Charities that accept real estate generally prefer the property to be highly marketable and debt-free. The organization's review process may also be more complex for income-producing investment property than for gifts of residential real estate. Additionally, donors must be willing to give up control of the property. Once the real estate is transferred, the charity is responsible for selling the property, including negotiating the sale price.

Tangible Personal Property

Some clients may have art, books, jewelry or other collectibles to donate. For instance, an individual could donate a work of art to a museum's collection or to a hospital for the benefit of its patients. Donors who itemize are generally entitled to a charitable deduction equal to the fair market value of appreciated tangible personal property held for longer than one year, limited to 30% of AGI.

However, the charitable deduction may be limited to the property's cost basis if the charity's use of the property is not related to its exempt purpose. Generally, a gift is treated as unrelated if the charity sells, exchanges or otherwise disposes of the property by the end of the tax year in which the gift was made. Exceptions may be allowed if an officer of the charity certifies one of the following in writing:

- How the property was related and used to further the charity's exempt purpose
- That the charity intended to use the property for its exempt purpose or function when received and that such use has become impossible or infeasible to implement

For deductions of tangible personal property exceeding certain thresholds, if the charity disposes of related-use property within three years of the contribution without making this certification, the donor may be required to recapture part of the deduction. In that case, the donor would have to include in ordinary income the difference between the claimed deduction and the property's basis.

Appraisal Rules

Donors may need an appraisal performed by a qualified appraiser to claim a charitable deduction above a certain amount for gifts of personal or real property. The donor must complete IRS Form 8283, signed by the charity and the appraiser, and attach it to their federal income tax return.

For details and specific requirements, review IRS Publication 561, *Determining the Value of Donated Property*.

Ordinary Income Property

Property is considered ordinary income property if it would have generated ordinary income or short-term capital gain if the donor sold it at fair market value on the date it was contributed to charity. Examples include inventory, works of art created by the donor, and capital assets held for one year or less. For most types of assets, the income tax deduction for the charitable contribution is based on the fair market value of the property, but for ordinary income property, the deduction is generally limited to the property's basis. Due to this limit, owners of highly appreciated ordinary income property might choose to donate another type of asset that could produce a higher tax deduction.

Example

Mrs. Thompson has decided to gift shares of publicly traded ABC stock to charity. She purchased the shares 10 months ago for $9,000, and they were worth $10,000 when she donated them. If itemizing, Mrs. Thompson's charitable deduction is the fair market value of the gift minus the amount that would be ordinary income or short-term capital gain if sold:

$10,000 - $1,000 = $9,000, which is her cost basis.

If Mrs. Thompson had held the stock for at least 12 months, the capital gain would be considered long-term. As long as she itemized deductions for the year, she could generally deduct the fair market value of the stock, up to the AGI limits.

Interest in a Business

Clients may contribute an interest in a privately held business to charity, including private C corporation and S corporation stock, and limited liability company (LLC), limited partnership and private equity interests. If itemizing deductions, donors may qualify for a tax deduction based on the current fair market value of the asset minus the amount that would be ordinary income or short-term capital gain if the property were sold at fair market value. If the property interest is transferred to a private foundation, the deduction is generally limited to the fair market value of the property or the donor's basis in the property (not just the original cost basis).

If the business is a partnership or LLC taxed as a partnership, the fair market value of a partnership interest is generally the fair market value of the donor's share of the business' assets less his or her share of partnership liabilities. The contribution may also be divided between a charitable contribution and a deemed sale for the partner's portion of the partnership liabilities.

The process for donating interests in businesses may present challenges. Many charities may not accept them unless they have a way to liquidate the interest for cash, and some businesses may not allow the gift because they do not want a charity to be an owner or, as in the case of an S corporation, the charity may not be eligible to be an owner. It can also be difficult to determine fair market value for private companies. The donor or the business may wish to hire a professional appraiser to value the company and calculate the value of the donor's interest.

Interest in a Personal Residence, Farm or Ranch

Individuals donating a remainder interest in their personal residence, farm or ranch may qualify for an immediate tax deduction even if the charity does not receive the property for several years. The remainder interest can be set up in a variety of ways, but typically the donor retains the use of the property during his or her lifetime and gives a charity the right to own the property after a certain number of years or at the donor's death. The amount of the potential tax deduction is calculated using interest rates and actuarial tables provided by the IRS to determine the value of a life interest and remainder interest of property.

For clients who intend to leave a bequest to charity, donating a remainder interest in their home or farm may be an attractive option if they know their loved ones are not interested in using or managing the property after their death. By transferring the interest in the property to charity, the donor's family will not have to handle the management or sale of the property. Gifts of remainder interests in farmland or a home generally should be debt-free because the amount of any charitable deduction is limited by the amount of any mortgage.

Summary of Tax Benefits of Charitable Gifts*

Type of Property	Direct Gifts to Public Charities & Donor Advised Funds	Gifts to Private Foundations
Cash	May be able to deduct full amount, up to 60% of AGI	May be able to deduct full amount, up to 30% of AGI
Appreciated Property (Long-term Capital Gain), including Tangible Personal Property	May be able to deduct fair market value, up to 30% of AGI	May be able to deduct full amount, up to 20% of AGI
Ordinary Income Property	May be limited to donor's basis in the asset	May be limited to donor's basis in the asset

* General guidance. Please consult the IRS Code, regulations and publications to determine applicability to your specific client's situation.

Gifts That May Not Be Deductible – Partial Interest Rules

Generally, if a person transfers a partial interest in property to a charity, the gift may not be deductible. For example, a donor cannot claim a charitable deduction for allowing a charity to use office space rent-free or for making an interest-free loan to a charity. There are exceptions, including the following:

- If a partial interest represents the donor's entire interest in the property, such as a gift of a life estate if all the donor owns is a life estate
- An undivided portion of the donor's entire interest in the property, such as a gift of a 25% interest as a tenant in common in a parcel of real estate
- Property transferred to a charitable remainder annuity trust (CRAT), charitable remainder unitrust (CRUT) or pooled income fund

- A contribution of a remainder interest in a personal residence or farm (whether or not it is occupied by the donor)
- A qualified conservation contribution (for example, a conservation easement to preserve a marsh for wildlife)

Consult IRS Publication 526, *Charitable Contributions*, for further guidance regarding partial interest rules.

Records Required for Claiming a Charitable Deduction

To take an income tax deduction for the charitable contribution, the donor must keep certain records to show charitable contributions made during the year. The required documentation depends on the value of the gift and whether the donor contributed cash or property. Consult the IRS Code, regulations and publications, including 526 and 1771, to determine applicability to specific client situations.

Charitable Giving Strategies

Once clients have determined the amounts and assets they would like to donate, professional advisors can help them choose a gifting strategy that best fits their goals. Some clients may prefer the simplicity of making an outright gift by writing a check to charity or leaving assets at death through a will, trust or beneficiary designation. More complex gifting strategies may be considered, depending on the size of the client's potential estate, the complexity of the assets or the client's desire to make significant gifts. Vehicles including donor-advised funds, charitable trusts and foundations may allow a donor to contribute to charity over multiple years, and may offer additional features, such as current income, tax management or control over the charity's use of the gift.

Basic Gifting Techniques: Outright Gifts

Lifetime gifts of cash or assets – Clients can donate cash, assign securities or deed a property to a charity. For example, a donor who wants to support education may gift shares of stock to a university's scholarship fund. While the donor may be able to put some restrictions or conditions on the use of the gift, usually through a written gift agreement with the charity, an outright gift typically involves little or no future role in the organization's operations, management or investments. If clients would like to make sizeable gifts and exercise more control over grants, they could consider a donor-advised fund or private foundation.

Will or living trust – An individual may leave assets to charity at death via a bequest in a will or trust, and the estate may be able to take a tax deduction for the charitable contribution. The client has the flexibility to change the designated charity or revoke the decision by updating the will or trust document. While a will is relatively easy to establish and gives the client control over where assets go at death, it only covers assets held in his or her name. It does not typically cover assets held jointly or those that pass by way of a beneficiary designation. Additionally, assets left to charity through a will may be subject to probate, which can be a time-consuming and costly process in some states. Charitable bequests made through a trust avoid the probate process, provided the assets are correctly registered in the name of the trust.

Direct beneficiary designation – Individuals can designate one or more beneficiaries for their retirement plan, IRA, life insurance policy or annuity, and the beneficiaries will receive those assets at the individual's death. A beneficiary designation can be an easy way to transfer assets to a charitable beneficiary or divide assets between loved ones and charities, and those assets may be excluded from the probate process. Although the assets may be included in the decedent's gross estate for estate tax purposes, the estate may qualify for an estate tax deduction for the charitable contribution.

Clients that want to contribute a specific dollar amount may consider gifting a permanent life insurance policy directly to charity using a beneficiary designation. Since life insurance has a stated death benefit, the client can help ensure that his or her legacy plans are met independently of the final value of his or her other assets. When the policy owner names a charity as a sole, partial or contingent beneficiary, the insurance proceeds will be included in the owner's estate for estate tax purposes, but the estate will generally be able to take a deduction for the amount passed to charity.

Transfer on death (TOD) / payable on death (POD) agreements – Similar to a beneficiary designation, a TOD or POD agreement may be used to transfer all or part of a brokerage or bank account to a charity. The agreement directs how the institution holding the account should distribute the owner's assets at death. Generally, the account will avoid probate, and the estate will be able to take a federal estate tax deduction for the charitable contribution.

More Complex Giving Strategies

Clients that plan to make large gifts to charity may consider strategies that could provide more control over taxes or the charity's use of the funds. These options typically involve additional costs and complexity, so it is important for clients to outline their goals and discuss all considerations with their professional team before implementing a charitable giving plan.

Donor-advised Funds (DAF)

A DAF may be sponsored by a public charity, such as a community foundation, or a commercial donor-advised fund established through a charitable organization and set up by a brokerage or financial institution. The donor makes a gift to the fund and, if itemizing, may receive an immediate income tax deduction for the gift, though the DAF may not pay funds to a charity right away.

A DAF may appeal to clients who want to involve their family in giving decisions. Donors, their families or other designated individuals can advise the fund on asset investment, organizations to receive grants and how much to give.

However, donors or other designated individuals have little ongoing control over the fund's management and operations. Another tradeoff of using a DAF is the limited ability to change the structure later. For instance, it is unlikely that a DAF would transfer its assets to a private foundation because of limitations on the types of distributions that may be made from the fund. DAFs are subject to the excess business holdings rules that apply to private foundations and to the excess benefit transaction rules that apply to public charities in general. These rules can impose limitations on transactions between the DAF and the donor and donor advisors, as well as their family members and certain entities owned by them.

Charitable Gift Annuities

Gift annuities are often offered by national charitable organizations (e.g., American Red Cross, National Geographic Society) and institutions such as universities and museums. The donor contributes cash or property to the nonprofit organization, which invests the gift and sends the donor a fixed annuity payment for life. Income may be paid to one or two beneficiaries (annuitants), often the donor and spouse, though the donor may name different beneficiaries. When the last beneficiary dies, the charity receives the balance of the funds.

Donors may be able to claim an income tax deduction for the portion of the gift that is not returned to them in annuity payments. For gifts of cash, and once the beneficiary has exceeded the life expectancy (based on an annuity mortality table), payments are subject to ordinary income tax. For gifts of appreciated assets, a portion of the payments may be subject to capital gains tax.

Gift annuities can be a good vehicle for making relatively small gifts. They may help clients supplement their income during retirement or provide income to a surviving spouse or loved one after their death. Since the income payments are fixed, they won't change as interest rates and stock prices fluctuate. The amount of the income payment depends on factors such as:

- The value of the donor's contribution
- The gift annuity rate offered by the charity
- The number of annuitants receiving payments
- Age of the annuitant(s)

Considerations for Individuals with Larger Potential Estates

Individuals whose net worth exceeds the federal estate tax exclusion amount may consider ways to reduce the size of their estate, such as transferring assets to loved ones or charities. Several states have estate or inheritance tax laws that apply to an estate whose value is below the federal exclusion, so it is important for clients with larger estates to work with their professional team to understand how state tax laws impact them. Clients whose estate value is below the exclusion amount may still have relatively complex situations that could benefit from more detailed estate planning. Relying on beneficiary designations and TOD/POD agreements to address these estate-planning and philanthropic goals may not be sufficient.

Charitable gifting strategies such as charitable trusts and foundations may allow clients to make sizeable gifts while having more control over taxes. Because the rules regarding these entities can be complex, tax and legal professionals should help clients evaluate how various planning techniques could impact their tax situation, estate, heirs and chosen charities.

Charitable Trusts

Some individuals may set up a charitable trust as part of their estate plan. Two common types are charitable remainder trusts (CRTs) and charitable lead trusts (CLTs). They are known as "split interest" trusts because the grantor (creator of the trust) can provide a benefit to both charities and individual beneficiaries (typically the grantor, spouse or other loved ones). The main difference between CRTs and CLTs is whether the charity receives funds from the trust during its term or when it terminates.

Although grantors can name themselves as trustee, it is common to use a professional trustee to manage charitable trusts. The trustee's ability to meet ongoing administration and tax reporting requirements and manage the trust assets is crucial to qualifying as a charitable trust for tax purposes. If the trust is not properly administered, it could lose tax benefits and be subject to penalties. Also, if the trust is funded with illiquid or non-publicly-traded assets, a professional trustee may have more resources to manage the assets' valuation and sale.

CRTs

With a CRT, the trustee invests assets gifted by the grantor to the trust and pays the grantor, or another individual beneficiary named by the trust, a current income stream. The remainder of the trust passes to the charity when the trust terminates, often after a set number of years or at the death of the last income beneficiary.

An estate-planning attorney or CPA should help the grantor estimate the possible income tax deduction from the gift to the charity. In general, tax deductibility depends on the annual income received from the trust, the type and value of assets gifted to the trust, the beneficiaries' ages and the applicable federal income tax rate. Deductibility can vary from 20% to 60% of AGI but is usually limited to 30%. If the entire deduction created cannot be used in the first year, it can be carried forward for up to five years.

Grantors often donate highly appreciated assets such as stock, mutual funds or real estate to a CRT, which are typically sold to diversify the trust assets. Because the trust is exempt from paying capital gains tax on the sale, CRTs can convert highly appreciated assets that may not have produced much income into a current income stream. However, the capital gains tax is deferred, not avoided. Distributions paid to the income beneficiary are subject to tax based on the unique "four-tier accounting" rules. The order of distributions is ordinary income, capital gain, tax-free income and return of principal. Therefore, all ordinary income generated by the trust must be paid out before any capital gain can be distributed from the trust.

Two common ways of structuring the CRT's distributions are an annuity trust or a unitrust. A charitable remainder annuity trust (CRAT) pays the income beneficiaries a fixed percentage of the initial contribution amount each year. Because the amount of annual income does not change regardless of the assets' performance, a CRAT may be a good option for clients who want predictable income. However, the income amount may not keep up with inflation over time.

A charitable remainder unitrust (CRUT) pays the income beneficiaries a fixed percentage of at least 5% of the trust value each year. Because the payment is recalculated annually based on the market value of the trust assets, income payments can fluctuate. This feature may help hedge against inflation because payments can increase if the assets grow. However, payments may also decline when the account's return is less than the payout rate. The grantor can make additional gifts to a CRUT over time, which could also increase payments to the income beneficiaries.

Example

John and Mary Smith donate stock worth $300,000 to a CRUT that pays 6% per year. The trustee immediately sells the stock and invests the proceeds in a diversified investment portfolio. The Smiths receive $18,000 of income the first year (6% of $300,000). At the end of the year, the trust assets have a market value of $280,000, so the Smiths will receive $16,800 (6% of $280,000) from the trust in year two. If the trust was drafted as a CRAT, the Smiths would receive $18,000 in income each year, regardless of the market value of the trust.

CLTs

CLTs are the inverse of CRTs. The designated charities receive funds for a period of time, and the remaining assets are distributed to the grantor's family members or other beneficiaries when the trust terminates. There are annuity and unitrust versions of a CLT. The charities receive the same payment every year from a charitable lead annuity trust (CLAT), while payments fluctuate with the account value each year in a charitable lead unitrust (CLUT) structure.

Unlike a CRT, a CLT is not a tax-exempt entity, so the trust income may be taxable to the grantor or the trust, depending on how the trust is drafted. If the trust assets outperform the rate of return presumed by the IRS (the Section 7520 interest rates used to value certain charitable interests in trusts), the excess growth can pass to beneficiaries free of estate and gift tax. The 7520 rate represents what the IRS deems to be a reasonable rate of return and is used to value annuities and income, reversionary and remainder interests. It factors into the gift tax computations for CLATs and CRATs but has little to no impact on the value of unitrust interests. The lower the 7520 rate, the higher the present value of the charity's interest and the lower the gift tax value of the remainder interest.

Clients might consider a CLT if they want to contribute to charity over several years and pass appreciated assets to loved ones, potentially reducing estate or gift tax consequences.

Foundations

While the charitable trusts discussed above are designed to terminate, a charitable foundation could allow a high net worth client to create a legacy in perpetuity. Private foundations are nonprofit organizations that can be funded and controlled by a limited number of donors, such as an individual, a family or a corporation. The donor's contributions to the foundation are tax deductible, subject to AGI limits and the donor itemizing deductions. Private foundations generally fall into two categories:

- **Non-operating private foundations –** charitable organizations that generally do not actively fundraise and are required to distribute a certain percentage of their assets annually to a public charity. These can be set up as either a corporation or a charitable trust.
- **Private operating foundations –** charitable organizations that have a stated charitable purpose and carry out their own charitable activities rather than sending grants to other charitable organizations. An example would be a foundation established to operate a food pantry.

Foundations are subject to an excise tax on the annual net investment income. Except for private operating foundations, they are required to distribute a minimum of 5% of net investment assets each year. Private foundations are also subject to restrictions on self-dealing, excess business holdings, jeopardizing investments, and taxable expenditures. If the foundation will be funded with closely held business interests or real estate, and family members or entities owned by them may purchase these assets, the self-dealing rules can be of concern. The transfer of closely held business interests may also create complexity under the excess business holdings rules. These issues can often be resolved using certain exceptions available under the private foundation rules.

Some clients with substantial wealth may consider a private foundation if they wish to involve their families and teach the next generation about philanthropy and stewardship. Donors may also be interested in operating a charitable organization and controlling investment decisions and grant-making. For example, decisions including the timing for sale of business interests or real estate can be made by the foundation's board without the involvement of any outside charities or other parties. Another advantage is flexibility, because the foundation's assets can usually be transferred to another public charity or donor-advised fund. The reverse – a transfer of assets from a public charity or donor-advised fund to a private foundation – is generally more problematic.

Summary of Charitable Giving Strategies

Strategy & Objective	Advantages	Disadvantages
Donor-advised Fund (DAF) Immediate tax deduction, the ability to recommend grants and the option to contribute many types of assets	• Grants may be made to multiple charitable organizations over time • Family members can be involved in discussions about grants • May be able to create a succession plan to pass/split account or gift remaining assets to charity • Distributions may not need to be made to charities every year • May be able to choose recognition or anonymity when recommending a grant	• Limited control over fund's asset management and administration • Charges a fee based on a percentage of the fund's value

Strategy & Objective	Advantages	Disadvantages
Charitable Gift Annuity Earn income and support a charity by donating assets that are easy to liquidate (cash or publicly traded securities)	• Generates a fixed income stream for beneficiary's life • Minimal costs • Can remain anonymous to public but not to charity	• May be less tax efficient than other giving vehicles since a portion of each income payment is taxable • No control over assets or use of gift
Charitable Remainder Trust (CRT) Remove highly appreciated assets from estate and diversify investments, supplement income and provide an eventual benefit to charity	• Donor (or designated beneficiary) receives income • Can diversify appreciated investments without incurring an immediate capital gain liability • Choose income and remainder beneficiaries and trustee • May be able to change charitable beneficiary over time • May choose multiple charities as beneficiaries	• Partial tax deduction • Requires legal expertise to set up and often a professional trustee to manage, so ongoing costs vary
Charitable Lead Trust (CLT) Tax-efficient transfer of assets to loved ones with opportunity to benefit charity for several years and earn an income tax or estate tax deduction	• Generates current income for charity for period of time • Pass assets to loved ones free of estate tax • Choose income and remainder beneficiaries and trustee	• Partial tax deduction • Requires legal expertise to set up and often a professional trustee to manage, so ongoing costs vary
Private Foundations Make substantial gifts, manage all contributions, investing and charitable grants, and leave a legacy in family's name	• Donor and/or family can have complete control over investments, grant-making and operations of the foundation • Grants may be made to multiple charities • Can make lifetime or posthumous gifts	• High startup and ongoing costs for administration and management • Must distribute a minimum amount of net investment assets to charity annually (except private operating foundations) • May owe excise tax on annual net investment income • Limitations on charitable deductions more restrictive than contributing directly to public charity • Required to make public certain information about foundation trustees, employees, grants, income and investments

Take Time to Review Charitable Giving Strategy

Professional advisors should encourage clients to review their estate and charitable giving plans periodically. Strategies may need to be adjusted over time due to changes in a client's financial or family situation. Also, changes to federal and state tax laws or regulations could render some strategies less efficient or obsolete.

When reviewing clients' goals, professionals should consider the following:

- Has the client experienced any life changes, such as marriage, divorce, death of a spouse or the arrival of children or grandchildren?
- Has the client experienced a large increase or decrease in wealth?
- Has the client moved to another state? Estate plans designed under a previous state's laws may no longer be appropriate.
- Are legal documents, beneficiary designations, and asset titling up to date, and do they reflect the client's wishes?

Conclusion

There are multiple strategies that may help individuals achieve their charitable, tax and estate-planning goals. Tax, legal and investment advisors can help their clients evaluate the options, determine the most suitable assets to donate to charity and create plans for making gifts during life or at death. To determine the most appropriate charitable giving vehicle, donors will need to prioritize their desires to provide for loved ones, minimize taxes and achieve estate-planning and philanthropic goals.

How Edward Jones Can Help

Edward Jones is committed to a team approach for meeting our clients' needs. Edward Jones financial advisors collaborate with clients' CPAs, attorneys and other professionals to work toward a common objective: helping clients preserve, manage and distribute their wealth while meeting their financial goals. To learn more about how this team approach can help you serve your clients' best interests, contact an Edward Jones financial advisor today.

The strategies discussed in this brochure, as well as the information regarding specific limitations, holding periods, documentation requirements, etc., are current as of the publication date of this brochure. Such strategies and information may be affected by future legislation or IRS guidance, so practitioners should always consult the current Internal Revenue Code, regulations, IRS publications and other guidance when advising their clients.

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Building a Team of Professionals to Help Provide Solutions for Our Clients

At Edward Jones, we believe that when it comes to financial matters, the value of professional advice cannot be overestimated. In fact, in most situations we recommend that clients assemble a team of professionals to provide guidance regarding their financial affairs: an attorney, a tax professional and a financial advisor.

The legal, accounting and financial services industries are governed by constantly changing complex laws and regulations. By working together as a team, driven by similar philosophies and guiding principles, professionals in a variety of financial fields can use complementary knowledge and skills to assist mutual clients in planning for today's financial, tax, legal and estate-planning challenges.

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