Charitable Planning: A Strategic Way to Give Back and Reduce Taxes

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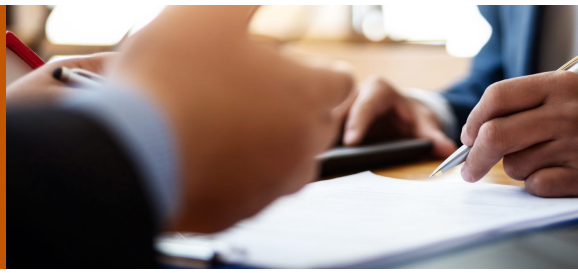

Charitable trusts can offer a powerful opportunity for individuals and families to support causes they care about while achieving tax advantages and long-term financial planning goals. By placing assets into a charitable trust, donors can contribute to public good and potentially reduce income, capital gains, and estate taxes.

This strategy is ideal for those looking to leave a legacy, maximize the impact of their wealth, and ensure ongoing support for charitable organizations.

What is a Charitable Trust?

Charitable trusts fall into two main categories, which are conceptually the inverse of each other:

Charitable Remainder Trust (CRT): Provides income to the donor or beneficiaries first, with remaining assets going to charity. This arrangement allows a partial income tax deduction when the trust is funded. The donor or beneficiaries receive an income stream for a period of time and then the remaining assets are distributed to the remainder charitable beneficiary. A CRT can be an attractive option for gifting of highly appreciated assets. The CRT itself is tax exempt, but the beneficiary receiving the income stream will pay taxes on that income.

Charitable Lead Trust (CLT): Directs income to a charity first, with the remainder eventually passing to heirs or other beneficiaries. A CLT can reduce estate and gift tax but, unlike a CRT, is not a tax-exempt entity. The income tax treatment of a CLT will depend on whether the trust is structured as a grantor or non-grantor trust.

Key Requirements and Considerations

The creation of a charitable trust requires careful work between your legal and tax advisors, to ensure that the trust meets IRS criteria and to maximize the estate and income tax opportunities specific to the donor. A charitable trust is irrevocable, which means it generally cannot be changed after it is created. Both a CLT and CRT require ongoing tax compliance, including annual tax filings. When part of a comprehensive estate and income tax plan, they can be used to achieve objectives on both fronts.

While a charitable trust can be a powerful tool, there are numerous charitable tax planning strategies that can also provide significant income tax advantages without the complexities of creating and funding a trust.

If you're exploring ways to support the causes that matter most to you while also achieving long-term financial planning goals, a charitable trust may be worth considering. Reach out today to see how our team can help you evaluate whether this strategy aligns with your overall estate and tax planning objectives.

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