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What are the tax benefits of charitable trusts?





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Charitable remainder trust

Americans give freely to support the causes they value, from churches, education, and the arts to medical research. Fortunately, current tax laws encourage and even reward philanthropy. Beyond the basic tax deductions for charitable giving, setting up one or both of the following types of trusts could provide financial advantages in addition to the personal satisfaction that comes from giving.

When money, securities, property, or other assets are placed in a properly structured charitable remainder trust, the grantor or the grantor's beneficiaries receive payment of a specified amount at least annually. When the trust expires, the designated charity receives the assets that remain.

For the grantor, there are a few potential tax benefits: (1) Assets placed in the trust may qualify for an income tax deduction on the estimated present value of the remainder interest that will eventually go to charity. (2) At death, trust assets are not subject to estate taxes because they are no longer part of the grantor's taxable estate. (3) Any appreciated assets in the trust are also exempt from current capital gains tax.

Charitable lead trust

A charitable lead trust is an estate conservation tool that uses the grantor's assets to provide income to a charity. At the end of the trust period, the remaining assets are paid to the grantor or the grantor's beneficiaries. This type of trust could potentially reduce the estate tax due upon death, most notably on highly appreciated assets, because they are not subject to current capital gains tax.

Keep in mind that donations to both types of charitable trusts are irrevocable. This means that the assets cannot be withdrawn once the trust is formed. Also bear in mind that not all charitable organizations are able to use all possible gifts. It is prudent to check first. The type of organization selected can also affect the tax benefits that may be received.

When structured properly, these tools could possibly be used to benefit the charities of your choice and also help to reduce your tax obligations at the same time.

The use of trusts involves a complex web of tax rules and regulations. You should consider the counsel of an experienced estate planning professional and your legal and tax advisors before implementing such strategies. Trusts incur upfront costs and ongoing administrative fees.

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