5 Ways to Start Giving to Charity

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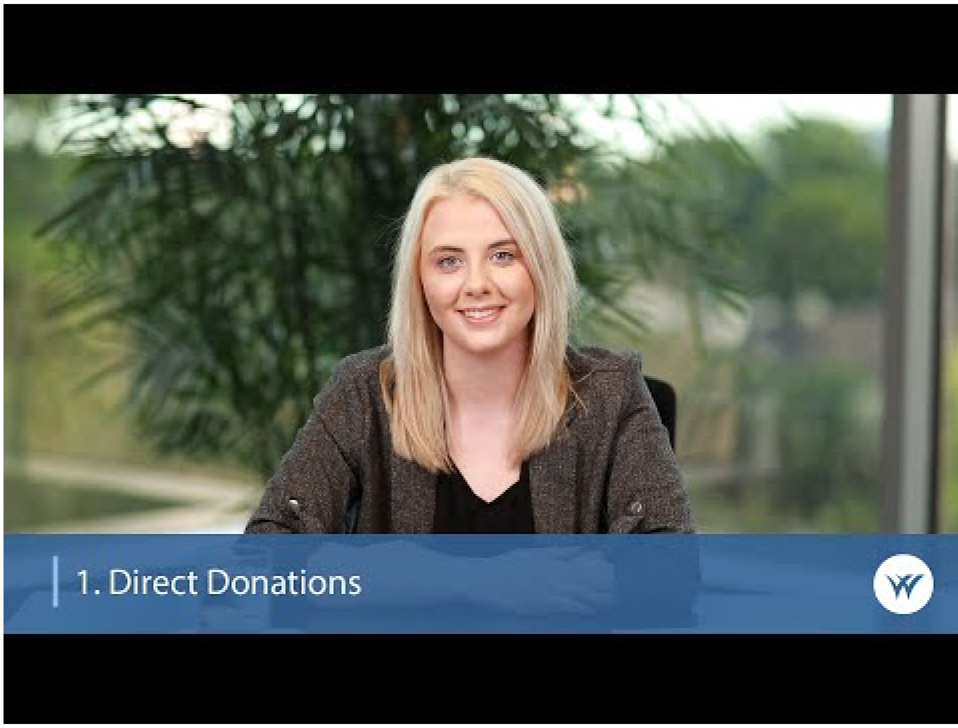
Charitable giving can feel overwhelming when you are not sure how to approach it. What are the benefits to giving one way versus the other? What are the differences? This article will explain five different ways you can start giving to charity today.

1. Direct Donations



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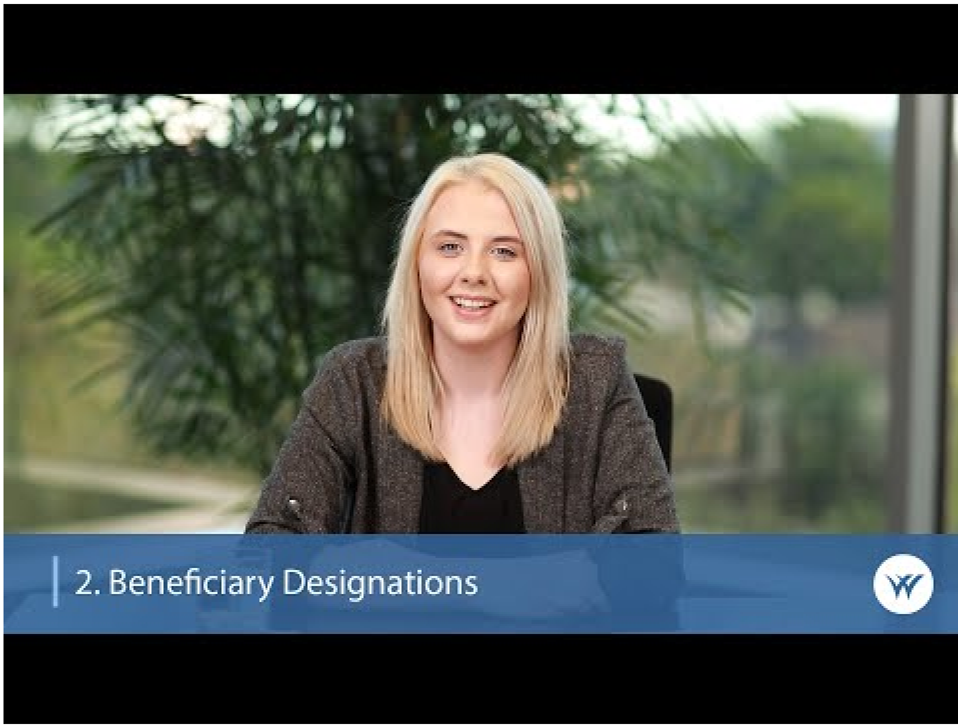
The first and easiest way to give to charity is through direct donations.

Direct donations can include cash, stocks, property and a required minimum distribution (RMD) from an IRA. A benefit of contributing stocks and property versus cash would be that an individual can avoid capital gains, but still get a tax deduction for the full fair market value of the asset. The best kind of securities or property to give to charity would be the ones with the lowest basis, because they will have the highest capital gains savings. An individual can also donate their RMD and transfer up to $100,000 each year from their IRA to a charity if they are 70½ (the age that an individual must start taking required minimum distributions). When an individual donates their RMD, they will not be required to pay ordinary income taxes on the distribution, which could result in a large tax savings.

2. Beneficiary Designations



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Beneficiary designations are one of the simplest ways to donate a portion of an estate to charity.

When an individual designates a charity as the beneficiary of an asset by will or beneficiary designation form, they will not receive an income tax deduction, but they will be reducing their estate tax liability and lighten the burden of estate taxes for their heirs. This option is particularly beneficial for someone who wants to donate to charity but needs the flexibility to spend their assets during their lifetime.

3. Donor Advised Fund

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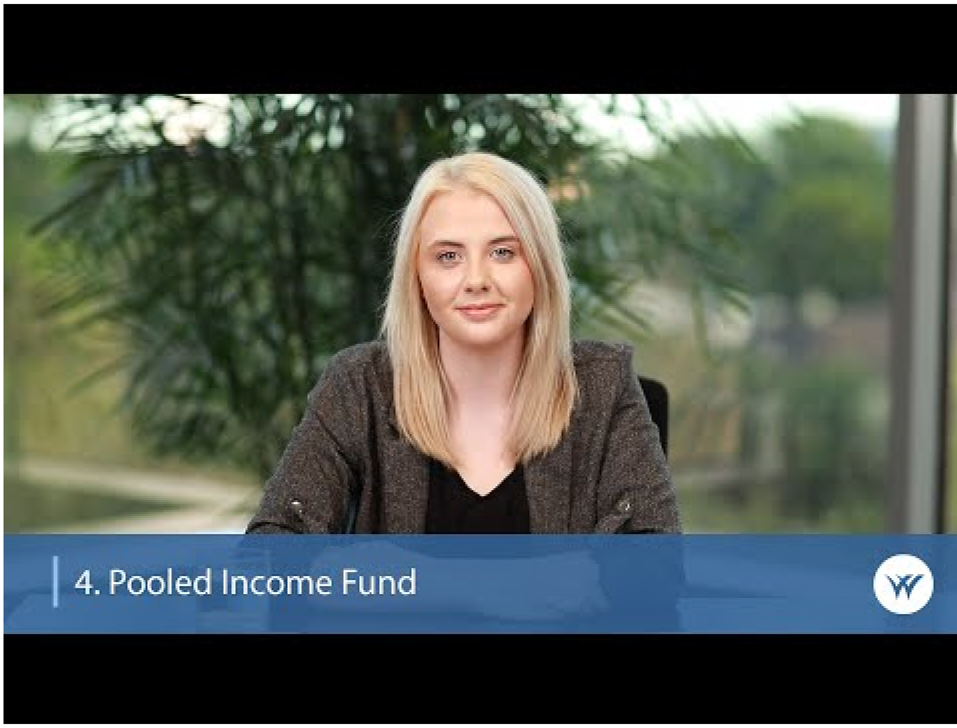
A donor advised fund is essentially a charitable investment account.

An individual contributes to a donor advised fund and can take an immediate tax deduction for that contribution. The assets will stay invested in the account until the individual donor recommends and directs which charity the money goes to. This is a great option for an individual who wants to give to charity but is not sure where they want to give yet. This is also a great option for someone who wants to put money aside and allow it to grow for a future charitable donation.

4. Pooled Income Fund



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A pooled income fund is a trust sustained by a public charity that pools together multiple contributors' funds and provides each contributor or the contributor's beneficiary with an income distribution on a regular basis.

With a pooled income fund, the funds provided by each contributor are commingled together for investment purposes. Once the contributor passes away, the funds that were put into the pooled income fund by the contributor are then passed to the charity. The amount of income that the contributor receives each year is based on many factors such as age and fair market value at the time of the contribution.

One advantage to a pooled income fund is that it can cost less than other forms of charitable giving, such as a charitable trust as we discuss below. A pooled income fund is a great option for someone who wants to give to a specific charity in the long run but would also like to receive a source of income throughout their lifetime.

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5. Charitable Trusts

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https://youtu.be/YCOjHX2ys-o

There are four types of charitable trusts: charitable remainder annuity trust (CRAT), charitable remainder unitrust (CRUT), charitable lead annuity trust (CLAT) and charitable lead unitrust (CLUT).

A charitable trust is set up so that the donor can give a split interest gift, where the charity receives part of the benefit and a noncharitable beneficiary receives the other part.

Charitable remainder trusts (whether it is an annuity or unitrust) give the noncharitable beneficiary the income interest for the life of the trust and the designated charity receives the remainder. Charitable lead trusts (whether it is an annuity or unitrust) do the opposite of a remainder trust and the charity receives the income payment for the life of the trust and gives the remainder to a noncharitable beneficiary.

The difference in a trust being an annuity or unitrust is that an annuity trust is a fixed annuity payment based on your original contribution to the trust and a unitrust's payments are based on the performance within the trust and can be higher or lower depending on how well the trust is performing. A charitable trust can be costlier to start than donating into a pooled income fund, but the funds in a charitable trust are not pooled and commingled with others.

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