PLANNED GIFTS DURING DIFFICULT ECONOMIC TIMES
Lifetime Philanthropy

By Scott A. Farber, J.D., CPA, CFP®

Charitable giving has become an increasingly important component of wealth management planning for many individuals and families. However, today's financial environment is giving many people pause about continuing or increasing their giving program. The fear being that once you give something away it's gone, and will no longer be available to support your income requirements. So, is it possible to continue your charitable giving and ensure your and/or your family's financial security? Fortunately, the answer is yes as there are several techniques that allow you to give to charity and meet cash flow needs.

One such strategy is the Charitable Gift Annuity (CGA) which can be used to access the value of an illiquid asset. A CGA is a transaction in which an individual transfers/sells property to a charitable organization (usually at a discount) in exchange for the charity's promise to make fixed annuity payments either immediately or at a later date, such as the individual's retirement. CGAs consist of two elements: 1) an outright gift to the charity, and 2) the purchase of a fixed income annuity contract from the charity. The donor receives an income tax deduction for the gift portion of the transaction and recognizes gain on the sale portion of the transaction. As with a commercial annuity, the donor will recognize income on a portion of the annuity payments. CGAs can provide the donor or another beneficiary with a lifetime annuity (no fixed term annuities); have fewer drawbacks than most other planning techniques when donating encumbered property; can be a low cost alternative to other planning techniques; and allow the donor to convert the value of an asset that generates little to no income, such as an art collection, real estate or non-dividend paying stock into cash flow. A CGA could even be used to access the value of a donor's home when, due to the current economic environment, obtaining a mortgage could be difficult. The donor would sell a remainder interest in the home to a charity in exchange for the annuity. This would result in the donor receiving the needed cash flow while allowing the donor to continue to live in their home. The main item of concern with CGAs is that you are dependent on the charity's ability to meet annuity payments. This risk is sometimes reduced by the charity purchasing a commercial annuity to support the payments.

If you are less concerned about supporting your income needs, but are instead hesitant to currently give away significant wealth because of the potential impact doing so could have on the financial security of your spouse and/or children and grandchildren, then a Charitable Lead Annuity Trust (CLAT) may be worth looking into. CLATs are irrevocable trusts that provide for and maintain two distinct sets of beneficiaries. The first is a charity(s) of the grantor's choosing that receives the "income" or "lead" interest. The second beneficiary is the non-charitable remainder beneficiary (i.e., the grantor's spouse, children or grandchildren). The CLAT pays a fixed amount ("annuity") to charity, at least annually, for a term of years ("term") or for the life of an individual. At the end of the term, the assets remaining in the CLAT pass to the non-charitable remaindermen. As with any other trust, a CLAT is administered by a Trustee of the Grantor's choosing.

There are many different ways to make a charitable gift, the details of which are beyond the scope of this article. Which charitable giving method is appropriate for you, how much you can afford to give and when you should make the gift, depends on your individual situation. Accordingly, it is very important to consult your attorney or tax advisor before implementing any charitable giving strategy.

Scott A. Farber is a Wealth Strategist for U.S. Trust, Bank of America Private Wealth Management.

This article is designed to provide general information about ideas and strategies. It is for discussion purposes only since the availability and effectiveness of any strategy is dependant upon your individual facts and circumstances. Always consult with your independent attorney, tax advisor, investment manager, and insurance agent for final recommendations and before changing or implementing any financial, tax, or estate planning strategy.

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