

THE Good Advisor

The Right Gift for the Right Time: Charitable Giving Options for Different Stages in Life

The audience is quiet in anticipation. The orchestra is seated and ready on the stage, waiting for the world-famous conductor to take the podium. Suddenly, a doorman from the lobby moves down the aisle, takes to the podium, and raises the conductor's baton. The doorman's musical experience consists of two accordion lessons in the second grade and once playing "Baa, Baa, Black Sheep" in the local pub. He quickly discovers he is way out of his depth—conducting an orchestra is not nearly as easy as it had looked when he watched from the back of the concert hall.

Charitable giving can present similar issues. For someone early in their career, making a complicated gift of real property or a business interest or getting into the details of a charitable trust may not be as easy as expected. In fact, it may not even accomplish their goals effectively if they're not careful in their planning. However, for a wealthy, financially experienced retiree, those same gifts may be the right fit, meeting important planning goals while executing a meaningful and sizable donation.

In this issue, we look at potential giving scenarios that may be a good fit during various stages of life. All scenarios assume the charitable gift is going to a charity that qualifies under IRC §501(c). And while each financial journey is unique, thoughtful advice from a knowledgeable professional can make all the difference in ensuring that the gift is well suited to the donor's circumstances and is carefully executed.

Early Career

Millennials (those currently ages 27-42) comprise a charitably inclined generation, willing to make personal sacrifices to support causes that are important to them.¹

While the size of donations from these individuals may be smaller, their passion for philanthropy should not be overlooked.

Example: When the Desire to Give Outpaces the Financial Reality

Robert and Alice, ages 29 and 27, got married a year ago and just purchased their first house. Robert is an architect working at a mid-level firm in the Midwest, while Alice is a classically trained chef who was recently promoted from junior chef to station chef at a popular downtown restaurant. They both earn decent salaries, but a good portion is still being used to pay down debt (including student loans). They plan to start a family in the next few years, but even before that happens, they would like to establish a consistent plan for giving to organizations that are meaningful to them.

Like many younger people, Robert and Alice have the heart for giving but not the financial wherewithal to make gifts that match their desire. They decide the best approach is to focus on establishing and maintaining a realistic and sustainable pattern of giving—a habitual approach that can grow along with their finances over time.

Cash Gifts

Making regular cash gifts to charity is a straightforward way for Robert and Alice to begin their philanthropic endeavors. Their gifts will qualify for a charitable income tax deduction if they itemize, assuming they maintain a record of the contribution (e.g., a canceled check, a receipt, or a written letter from the donee organization showing the donee name, the date, and the amount of the contribution,

or some other reliable written record showing the same information).²

Bequests

A good option for making a more substantial gift is for Robert and Alice to work with their attorney to include a charitable bequest in each of their wills. It is important to obtain and include the correct legal name and address for any intended charitable recipient. An improperly or incompletely identified charity can create problems and possibly lead to the charity not receiving the bequest.

Established Career

Those in Gen X, currently ages 43-58, are well established in their careers. While many are still dealing with financial pressures (say, sending their children to college or simultaneously supporting children and aging parents), many others are a bit more comfortable and have more resources with which to support their favorite charitable organizations. They are also in a position to utilize some of the more complex giving options that can help them achieve their retirement and estate planning goals.

Example: When the Gift Includes a Focus on Future Benefits

Marcus (54) works at a large accounting firm. He just received a \$100,000 year-end bonus for his performance and exceptional rainmaking skills. Marcus and his spouse, a cyber-security professional who retired from the Navy, have established a good estate totaling \$5.73 million. They have two children in college who both plan to go to graduate school. While Marcus has made regular charitable gifts over the years, he is now in a position to make a more significant gift to his favorite charity—perhaps a gift that puts the charity first but also provides benefits for his family down the road.

A Charitable Lead Trust (CLT)

With a charitable lead trust, the irrevocable trust pays out an annual income to a qualified charitable organization for a specified period of years. These annual payments are either a specified percentage of the initial trust assets (a charitable lead annuity trust or CLAT) or a specified percentage of the annually revalued trust assets (a charitable lead unitrust or CLUT).³ At the end of the trust term, the principal passes back to the grantor or to named noncharitable

beneficiaries (often, the grantor's children or grandchildren).⁴

Because the value of the charitable income interest is tax deductible for federal estate tax purposes, Marcus can use a CLT to reduce taxes while ultimately passing the remaining assets to his children.⁵ Plus, any appreciation inside the trust will pass to the children at the end of the trust term without any additional transfer tax. To make full use of this valuable tax minimization technique, Marcus might consider funding the CLT with assets expected to increase in value. (Note that if Marcus named his grandchildren as the noncharitable beneficiaries of the trust, this could trigger the generation-skipping transfer tax at the time of trust termination.)

Transition Into Retirement

Most Baby Boomers (now ages 59-77) are either approaching retirement or recently retired, perhaps still working out how to turn savings into retirement income streams and how to incorporate charitable giving into their new financial landscape.

Example: When Retirement Distributions Are Not Needed

Wayne, age 74, has been retired for four years. After building a plumbing business from the ground up, Wayne sold his firm to a competitor. Under the terms of the sale, he received a generous initial payment and will continue to receive \$200,000 annual payments over the next seven years. His estate is close to \$7 million. Wayne has extensive estate plans in place, has adequately provided for his family, and has a substantial IRA that he contributed to faithfully over the course of his career.

A Gift from an IRA

Wayne has already begun taking required minimum distributions (RMDs) from his IRA—taxable money he doesn't need. (RMDs must generally begin by age 73 starting in 2023, up from 72.) This year, Wayne chooses to make a qualified charitable distribution (QCD) to support a cause close to his heart. (QCDs are available starting at age 70½.)

The QCD is a simple gift to make. Wayne directs that a distribution of \$100,000 (the annual aggregate limit) be made directly from his IRA to the qualified charity.⁶ Although there is no tax deduction for this gift, the amount of the distribution is not includible in gross income, so it has no impact on Wayne's charitable

limitation.⁷ In addition, it satisfies part or all of his distribution requirement, and it's a gift he can make year after year if he wishes.

New legislation signed in December 2022 allows a one-time distribution from an IRA (up to \$50,000) to establish a charitable gift annuity or a charitable remainder trust—options that Wayne might want to consider if he wants to establish an additional income stream while making a meaningful gift.⁸

The Golden Years

Those who are comfortably settled into retirement (now ages 78 and above) may find themselves in financial circumstances that allow for fairly sizable donations to the causes and charities they find most meaningful as they think about leaving a lasting legacy.

Example: When Meeting Goals Means Blending Gifts

Antonia, 80, is a widow with four financially successful adult children and 15 grandchildren. She retired 10 years ago after selling her ownership in a chain of specialty dessert shops all along the East Coast. She is a sophisticated investor and donor, knowledgeable about finance and business law, and has maintained a tradition of giving since shortly after college. She has a total estate of \$28.5 million, including an IRA, an income stream from rental properties, and a \$2 million whole life insurance policy she bought decades ago to ensure her children's higher education expenses.

After an active first decade in retirement, Antonia is slowing down a bit and has begun to consider how to best leave a lasting legacy for her family and her favorite charity. She has long wished to make a “splash gift”—one large enough to attract media attention to the charity and hopefully encourage donations from other supporters. Working with her legal counsel, financial professionals, and the charity's planned giving staff, she decides to make a blended gift—a combination of gifts that will accomplish her philanthropic goal and work well within her estate and financial plan.

An Immediate Cash Gift

To satisfy her desire to draw attention to the qualified charity, Antonia makes an immediate cash gift of \$1,000,000. In addition to furthering the charity's important mission, the gift will qualify for a federal income tax deduction under IRC §170. This deduction

will be limited to 60% of Antonia's adjusted gross income (AGI) in the year of the gift, and she can carry over any excess for the next five years.

A Gift of Life Insurance

In addition to these current gifts, Antonia would like to make a future gift to sustain the charity's important work for years to come. Since she no longer needs the life insurance she purchased years ago—her children are long out of college and doing well financially—she changes the policy beneficiary to the charity. With this simple, straightforward gift, at the time of her death, the charity will receive the proceeds directly in the same manner as any other beneficiary. This gift will not produce an income tax charitable deduction, but it will result in an estate tax charitable deduction.

The Right Gift for the Right Donor

The world's best jockey would not last long on the offensive line in a professional football game, nor would an NFL lineman last long trying to guide and push a horse to a Kentucky Derby win. While both are skilled professionals, they have each focused on their unique strengths to maximize their potential. Successful philanthropy similarly requires carefully matching the right gift option to the donor's goals, circumstances, and strengths to maximize the potential for making a meaningful impact. The right gift for a retired business owner with significant assets is not likely to work for a new college graduate with a heart full of compassion but relatively empty pockets. No matter a donor's circumstances, though, you can look at the big picture and point them to the gift options most likely to prove successful.

ENDNOTES

- 1 Mark C. Perna, “Why Gen Z Might Become One of the Most Charitable Generations Yet,” *Forbes*, November 29, 2022.
- 2 Treas. Reg. §1.170A-13(a)(1).
- 3 *Ibid.*
- 4 Treas. Reg. §20.2055-2(e)(2)(vi)(a) and §20.2055-2(e)(2)(vii)(b).
- 5 IRC §2055(e)(2)(B).
- 6 IRC §408(d)(8).
- 7 IRC §408(d)(8)(A).
- 8 The IRA distribution option was part of the Consolidated Appropriations Act of 2023, which included SECURE 2.0.

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