Stretching your charitable dollars

You cannot respond to all the worthy causes that seek your financial support, but you may be able to do more than you realize. It's all a matter of planning. Here are some techniques being used by thoughtful supporters of schools and colleges, health and social welfare groups, the fine arts and a broad range of other charitable organizations:

Donate appreciated securities

Many investors have handsome capital gains—and, thus, potential exposure to income tax on those gains when they sell. Solution: Give appreciated securities instead of cash.

Example: Say you are in the 35% bracket for federal income tax purposes. This means that a cash donation of $10,000 to your favorite charity would cost you $6,500 ($10,000 less the $3,500 in tax you save by deducting your donation from your taxable income). Now suppose that, instead, you donate stock worth $10,000 that you purchased years ago for $3,000. You're still entitled to a $10,000 charitable deduction. What's more, you avoid the $1,400 capital gain tax you would owe if you sold the stock. That additional $1,400 saving reduces the net cost of your $10,000 donation to $5,100!

Enhance your income by creating a charitable remainder trust

This type of trust allows you to set aside a substantial gift to charity and reserve income payments for life. The payments may be based on a specified percentage of the trust fund's market value each year. (This arrangement is called a charitable remainder *unitrust*.) Or the payments may be structured as a fixed dollar amount each year (a charitable remainder *annuity trust*).

Example: Mrs. A wishes to make a substantial gift to her college, but she also needs more generous income from $200,000 worth of securities, currently yielding only about 2%. She decides to set up a charitable remainder unitrust. As life beneficiary, Mrs. A will receive 6% of the trust's market value each year. At her death the assets remaining in trust will pass to the college, just as if she had made a charitable bequest. Thanks to the trust, Mrs. A will receive a substantially better income flow each year. She's also entitled to treat part of her $200,000 deferred gift as an immediate charitable deduction. (The portion deductible in these cases depends on the donor's age, the level of the reserved income payments and other factors.) And Mrs. A will not realize any capital gain if the trustee sells her low-yielding securities in order to reinvest in higher-yielding investments.

Charitable remainder annuity trusts provide greater certainty than unitrusts: The donor knows exactly how much the trust will pay each year. Unitrust payments fluctuate with market conditions. Still, in the long run most of the fluctuations should be upward, creating a growing income flow that helps the donor keep abreast of the rising cost of living.

Note: Charitable remainder unitrusts can be funded by installments if desired. Annuity trusts must be funded all at once; no later additions may be made.

Conserve family wealth with a charitable lead trust

Want to help your favorite charity *and* pass along part of your estate to your children or grandchildren in a way that minimizes or eliminates gift tax? Consider a charitable lead trust.

Charitable lead trusts works much like charitable remainder trusts, but in reverse. A charity receives unitrust or annuity payments for a specified number of years, then the trust remainder passes to family beneficiaries.

Example: Mr. B, who heads a campaign to build a new children's wing for the hospital, plans to make generous annual contributions to the building fund. He also welcomes the idea of transferring part of his substantial estate to his grandchildren in a tax-efficient manner. So he places $300,000 in trust to pay a fixed 8% ($24,000) annually to the hospital building fund. After ten years the annuity payments will stop, and the trust remainder will be divided among the grandchildren—or held in continuing trust for their benefit if they're under a certain age. Result: Through the trust, Mr. B is essentially making the same donations of $24,000 that he intended to make directly. Now, however, he's also putting aside $300,000 for the grandchildren. And for gift tax purposes, he is charged with a gift of much less than $300,000 His taxable gift is limited to the "discounted present value" of the trust remainder.

The idea behind "planned giving," as the fund-raisers for charities call it, is that you should sit down, consider your charitable intentions, and look at the ways in which these intentions can be linked with steps that create greater financial security for yourself or members of your family. It's an idea often worth pursuing.