

# CHARITABLE GIFT 2016

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There are many forms under which a person can make a charitable donation or contribution to their favorite organizations. Many of them are rather complex planning strategies, involving Charitable Trusts or Family Foundations. But, many individuals just want to make a simple gift to their church, college, or other organization at the time of their deaths. Nothing fancy, just a little something that is to be left for the organization in their memory. The simplest manner in which to do this may be by just designating the charity in your will and the amount to be paid – and, that works fine.

But, before setting up that plan you should still look at the income and estate tax consequences of doing so. You just want to be charitable, but maybe you would like to do so in a way that no one pays any taxes. There are a couple ways in which this can be accomplished – all in a way that it stays “simple”.

First, a little estate tax history – always fun. When a charitable gift is made in a will, the estate receives an estate tax deduction. That is, the amount to the charity is not subject to estate tax. This has historically been very beneficial to the decedent, the family, and the charity – no one pays estate taxes. But, over the last few years, the estate tax exemptions have increased by extraordinary amounts. The federal exemption from estate taxes in 2016 is \$5,450,000 and on April 1st of this year, the New York exemption increases again to \$4,187,500 (on its way up to match the federal exemption by the end of 2018). So, many of us no longer have an estate tax problem.

It was not too long ago that the federal estate tax exemption was at \$600,000 and the New York estate tax exemption was at \$110,000 – many estates were subject to estate tax rates of over 50% so every charitable gift had a great deal of benefit for everyone. But, now you may not have an estate that is subject to estate tax. The gift can still be made and your wishes fulfilled, but there may be a better way to make those gifts.

First, consider lifetime gifts. Although there is a charitable deduction at death for a bequest, there is no income tax deduction. If you make your charitable gift during your lifetime, you will be entitled to an income tax deduction (as well as reducing your taxable estate if that is still a concern). An income tax deduction is always welcome.

Another strategy is to utilize retirement assets that you may have in qualified plans or in IRAs. The government has allowed us to defer income taxes on retirement accounts for many years, but at some point, it says “enough is enough – time to pay”. If you withdraw monies from your retirement account, you pay income taxes. If you pass away and your account rolls over to your spouse “tax free” and he or she withdraws monies, they pay income taxes. If you leave your retirement accounts to your children, they pay income taxes on the accounts regardless of whether they withdraw the monies or not. The rate at which income taxes are payable by the children depends on how the beneficiary designation and the accounts were set up.

The bottom line is that with retirement assets, someone at some time is going to pay income taxes on the monies withdrawn – except for the charity. Other “after tax” monies passing to your family through your will or by gift are tax free. If you leave monies out of your checking, savings, or investment

accounts to the charity, the family member still pays income taxes on monies withdrawn from your retirement accounts. So, to achieve the best of all worlds with your charitable gifting plan, consider using part of your retirement assets for your charitable gifting and no one pays income taxes on the money. You can set up a separate IRA or possibly have a split beneficiary designation that will pay your desired amounts to the charity at your death. And, if you change your mind, you can simply change your beneficiary designation – no need to change your will or trust.

Working with your investment advisor and us, we can set up a plan that makes everyone happy – except the government.