You Can’t Take It with You

Charity and your estate

By Gina Barry

Key Takeaways

- If you are charitably inclined, but worried about supporting yourself for the remainder of your life, consider making gifts that will take effect only after you have passed.
- You may also choose to contribute to a charity “generally” and then let the charity’s governing board determine precisely how to use the money.
- Another option is for you to establish a fund in your own name and thereby leave a legacy that lives on beyond your lifetime.

Like many people, you donate money to charity each year. Perhaps you donate to organizations dedicated to finding a cure for an awful disease that has affected your life or the life of a loved one. Perhaps you choose to benefit organizations that support and encourage positive growth in our youth, such as the local YMCA. Perhaps you are an animal lover and choose to support the local animal shelter or abuse prevention organization. Most everyone has a cause that is near and dear to their hearts.

Many people give charitable gifts each year, which is commendable. If you are charitably inclined, but concerned that you may not be able to support yourself adequately for the rest of your life, consider making charitable gifts that will take effect only when you have passed away.

Voltaire, the renowned French Enlightenment writer and philosopher, once said that “the man who leaves money to charity in his Will is only giving away what no longer belongs to him.” By providing for charity in your will, you ensure that your assets will be available not only for your survivor’s needs, but for supporting your favorite causes.

As many financial advisors are learning, when clients make a gift to charity, especially of a significant sum, they can designate how and for what purposes the money is spent. This ensures that clients’ money will be used solely for the purposes they designate. Advisors are also learning that clients may choose to contribute to a charity “generally” and then let the charity’s governing board determine precisely how to use the money. Another option is for clients to establish a fund in their own name and thereby leave a legacy that lives on beyond their lifetime.

In addition to including a favorite charity in their will, most people will include family members or friends. You may give a specific dollar amount to a favorite charity in your will; however, leaving a specific dollar amount to a charity in your will may unintentionally divert remaining funds away from family members or friends whom you may also want to benefit. Unless you are leaving your entire estate to charity, you should consider leaving a percentage of your estate to a favorite charity and then dividing the remaining percentage among family members and/or friends. By leaving a percentage, you can be certain that regardless of how large or small your estate may be, family, friends and the charity will receive proportionate shares reflecting the clients' wishes.

Leaving money to charity may also help preserve your estate and allow for a greater amount of assets to be passed along to family or friends. Presently, the federal estate tax threshold is $5.45 million, and in Massachusetts, where I practice, the state estate tax threshold is $1 million. If your estate exceeds the applicable thresholds, estate tax will have to be paid, lowering the amount remaining for your heirs. Any amounts left to charity will reduce the value of your taxable estate, however, thereby reducing or eliminating estate tax. Further, should your estate contain highly appreciated assets, you and your advisor should consider designating these assets to charity because a charity can generally avoid paying income tax when redeeming these assets, whereas your estate or heirs would incur income tax for the same redemption.

Instead of leaving money to a charity in a will, you and your advisor may name a favorite charity as a beneficiary of any asset with a designated beneficiary. Most commonly, a favorite charity is named as the beneficiary of life insurance or a retirement plan. It is also possible to benefit a charity by using various types of trusts. Because every estate plan is different, it is important to choose the most beneficial option when determining what asset to leave to charity, what amount to leave to charity and what planning technique to use.

Conclusion

Charitable giving can be extremely rewarding for you, your family, and by extension, your financial advisors who assist you. Your donation could fund research that cures presently incurable diseases. A donation could build a playground that bears your name (or family's name) at which neighborhood children play. A donation could provide medical care for an abused animal in desperate need of rehabilitation. A donation can only meet these needs if you actually make the donation. You can't take it with you . . . consider charity.

As country star Kristian Bush croons in his hit song Trailer Hitch, "*You can't take it with you when you go. ... Never seen a hearse with a trailer hitch*."

About the Author

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