Charitable Giving Technique: Split-Interest Charitable Gifts

What It Is:

If you want to make a charitable gift, especially a substantial one, split-interest charitable giving techniques allow you to make the gift today, while retaining an interest in the property and receiving both immediate and longer-term tax benefits.

How It Works:

With a split-interest charitable gift, the asset is split into two parts: a stream of income produced by the asset (**income interest**) and the principal remaining after the income interest is paid (**remainder interest**). Through the use of a charitable trust, the donor transfers the asset to the trust and names a beneficiary for either the income interest or the remainder interest, with the charity receiving the other interest. Assuming the charitable trust is properly designed, a split-interest gift may provide a current federal income tax deduction, avoidance or delay of capital gains taxation and/or a reduction of the federal estate tax bill.

Depending on your personal and charitable giving objectives, there are several different types of charitable trusts from which to select:

- **Charitable Remainder Trusts:** A **beneficiary** named by the donor **receives** the **income interest** for life or for a stated number of years, after which the **charity receives the remainder interest**. The beneficiary can be the donor, spouse or other family member. The donor receives an immediate charitable income tax deduction based on the present value of the charity's remainder interest. A charitable remainder trust is especially advantageous for donors with highly-appreciated assets, such as growth stocks and mutual funds or raw land, that need to be sold and converted to income-producing assets. In a **charitable remainder annuity trust**, the yearly income stream is a fixed amount determined at inception of the trust, while a **charitable remainder unitrust** pays a yearly income stream based on a percentage of the current value of trust assets, which are revalued each year.

- **Charitable Lead Trusts:** The **charity receives the income interest** for a stated period of time, with the **remainder interest then going to a beneficiary named by the donor.** The donor receives a current charitable income tax deduction for the present value of the charity's income interest.