admin - Wed, 6/17/2015 - 13:26

There are a variety of ways that a donor can make a commitment to your charity of an end-of-life gift that she can modify later or cancel altogether, if necessary. This sort of flexibility can be of great comfort to a donor who is nervous about her financial future, but wants to act on her desire to support a charity.

**Good Old Bequests**

A charitable bequest is simply an outright transfer to a charity made through the donor's will (or through a revocable living trust, if she happens to have created one). It can be as simple as a sentence or two in the will or living trust instrument. Even if the donor already has a will, it can often be revised to include a charitable bequest by means of a codicil. Similarly, a living trust agreement can usually be amended easily.

In addition to being amendable and revocable, bequests also offer great flexibility in how they are structured. Here are the basic choices:

1. Specific sum of money. "I give to the ABC Charity, currently of [address], or its successor organization, the sum of [amount]. . ."

2. Specific property(ies) such as real estate, stocks, bonds, jewelry, works of art, or other items. "I give to the ABC Charity, currently of [address], or its successor organization, [description of property]..."

3. Rest and residue of estate. The charity is given all or a percentage of what remains of the estate after paying debts, taxes, expenses, and other bequests. "I give to the ABC Charity, currently of [address], or its successor organization, all [or stated percentage] of the rest, residue, and remainder of my estate. . ."

**Beneficiary Designations: Often Better Than Bequests**

Like a charitable bequest, a beneficiary designation involves a transfer of assets to a charitable organization upon the death of the donor. In this case, the transfer is made from one or more investment or financial arrangements the donor entered into during her lifetime. Sometimes a donor won't even realize that such assets can be used to make a charitable gift unless you bring them to the donor's attention.

A donor can designate a charity to be a beneficiary of any of the following once her life has ended:

- an IRA or a qualified retirement plan, such as a 401(k) account
- a commercial annuity contract
- a life insurance policy
- a bank or brokerage account

Beneficiary designations are administered outside of the probate process, meaning a donor's gift will take less time to reach the charity and will likely be subject to fewer complications than will a bequest. Yet probably the more important advantage of a beneficiary designation is that it is generally even easier to arrange – or change – than a bequest. All the donor needs to do is complete a form supplied by the administrator of the account or other financial instrument. Note: even though this can be done without the involvement of a lawyer, a donor should always be advised to consult her lawyer regarding implementing or revising any element of her overall estate plan.

Except for a brokerage account, all of the possibilities listed above distribute cash to the charity. This makes it possible for a donor to name multiple beneficiaries, whether charities or individuals, by simply specifying the percentage of the cash each is to receive. A brokerage account features less flexibility, in that it is either difficult or impossible to apportion non-cash assets among multiple beneficiaries in precise percentages.

Finally, it may be possible for a donor to name a charity as the beneficiary of whatever remains at death in a donor advised fund she has created. This can be done with funds maintained by charitable organizations related to financial services firms such as Fidelity and Vanguard. Unlike the options listed above, this sort of gift will not qualify for an estate tax deduction, yet it can still provide valuable support for a charity at the end of a donor's life.

**Some Beneficiary Designations Are Even More Equal Than Others**

From a tax standpoint, the very best beneficiary designation is one made using "income in respect of a decedent," or "IRD." If the donor was either the owner or beneficiary of something which, had she remained alive, would have been taxed to

her as ordinary income when received, then that asset is an IRD asset.

Most distributions from an IRA are examples of IRD with respect to every dollar distributed. The only exceptions are distributions from a Roth IRA or distributions attributable to contributions of after-tax dollars made to some other type of IRA. The same holds true for most qualified retirement plans. In the case of certain commercial annuity contracts, some of what is distributed will be IRD, with the rest being non-taxable principal.

The good news for charities is that by virtue of their tax-exempt status, no income tax will be due on any IRD they receive. This means that if a donor's estate plan calls for benefiting both individuals and charities upon death, it is most efficient from a tax standpoint to use IRD assets to make charitable gifts and to earmark other assets for individuals. Otherwise, the individuals may pay income tax unnecessarily on the estate distributions they receive.

For example, if a donor wants to leave $25,000 to a favorite charity and $25,000 to an individual, it is generally preferable to leave assets such as IRA funds to the charity, with other assets, such as cash or securities, left to the individual. The opposite approach would be just as beneficial to the charity, but not as good for the individual.