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Leaving a lasting legacy through charitable gifts

In estate planning, I help clients make decisions that will let them take care of their families. I also help people who want to leave some of their assets to charities and non-profit groups, whether it's a bequest to a college, a donation for medical research or even a contribution to their local pet shelter. Charitable donations and bequests can be gratifying ways to make a lasting impact in the world.

For many, the decision to make a charitable bequest is no longer driven by tax considerations. Currently, there's no federal estate tax on individual estates under $11.4 million. So if your estate doesn't reach this amount, you don't have to worry about an estate tax. Whether you leave your assets to your family or give them to a local charity, the tax consequences will be the same—with one big exception.

Your beneficiaries will likely have to pay income tax (not estate tax) if you leave them money that you have in a traditional IRA, a 401(k) account or another tax-deferred account. That's because you deducted those funds from your income when you contributed them, so the government hasn't yet taxed that money.

But if you leave these tax-deferred funds to an eligible charity, that organization won't pay any tax. This has important implications for tax planning.

Let's say you have an estate of $1 million and half of that is sitting in an IRA. Let's also assume you want to leave half of your estate to your family and half to your local library. To maximize the impact of your money, you should give the $500,000 IRA to the library and the rest to your family. That way, none of the money goes to the government. If you gave the IRA to your family instead of to the library, they would pay income tax on it.

There's another reason to consider charitable groups in your estate planning. I usually recommend to my clients that they include a charity or non-profit in their estate plan as an "end taker." What does that mean? In the event that a person dies with no living heirs or human beneficiaries, the "end taker" charitable group stands at the end of the line to receive the assets in the estate. Without this end taker, the estate could end up going to the government. Even if you have children and other relatives, you should consider this planning device in case of a tragic, calamitous event.

Depending on your financial situation, there's a valuable estate planning option you may want to consider called a "donor-advised fund." These funds are used by individuals or couples who want to make large charitable contributions while they are living, without having to decide right away where the money will go. Today, these funds are philanthropy's fastest-growing vehicles, with more than $29 billion contributed to donor advised funds in 2017, according to the National Philanthropic Trust.

A donor-advised fund may make sense if your income tax deductions, including charitable donations in a single year, will exceed the standard deductions, which in 2019 are $24,400 for couples and $12,200 for individuals.

How does it work? Let's say you want to earmark $50,000 of your estate for charity, but you haven't decided where you want it to go. You can donate that $50,000 to a donor-advised fund, get an immediate tax deduction, and let the money grow tax free in an investment fund until you are ready to designate the recipients.

There are some big limitations. Most important, once you put the money in the fund, the decision is irrevocable. It must stay earmarked for charity. Also, when you name a recipient, you must designate an eligible charity or non-profit. You can't name your spouse or children as beneficiaries.

With the right planning, options such as these will allow you to make charitable gifts that will create a lasting impactful legacy. NGC estate planning lawyers have the skills and experience to ensure that client wishes are met.

—Brenda L. Wolff
wolff@nicola.com

Nicola, Gudbranson & Cooper LLC
25 West Prospect Avenue, Suite 1400
Cleveland, Ohio 44115

Tel: (216) 621-7227
Fax: (216) 621-3999

www.nicola.com

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