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Charitable Giving

Charitable gifting can play an important role in estate and tax planning. Apart from the obvious benefit that the gift will assist the charitable organization in accomplishing goals that may be close to your heart, a well-planned gift to charity may reduce or eliminate estate tax and/or income tax liability. Various strategies are available and can be tailored to suit your wishes.

Charitable Trusts are vehicles for enhancing tax-saving strategies. A **charitable remainder trust (CRT)**, which can be funded with an appreciating asset such as a vacation home or an interest in a family owned business, allows the creator to (1) retain control over the property for a period of time, (2) continue the enjoyment of the asset or the income stream, (3) receive an income tax deduction based on the future value when the asset is transferred to the charity, and (4) remove the remainder value of the asset from the estate and thereby reduce potential estate tax. A **charitable lead trust (CLT)**, the "flip-side" of the CRT, gives the charity the immediate use of the asset and the right to the income for a period of years, after which the asset reverts back to the creator of the trust or to whomever the creator designates in the trust. A CLT can be funded with income-producing stocks or bonds or art objects that are "loaned" to a museum for a period of time. The creator of a CLT receives a current income tax deduction for the value given to the charity and, if the CLT is implemented at the death of the creator, it reduces potential estate tax.

Appreciated assets, life insurance policies and 401(k) plan assets can also be gifted directly to charities with beneficial tax consequences. An appreciated asset will be subject to capital gains tax upon its sale. [See article on Capital Gains Tax also in this issue]. By gifting it to charity, the donor receives an income tax deduction based on its fair market value. The charity receiving 401(k) plan assets is not taxed on the income and the donor receives an estate tax deduction for the value of the assets that passed to the charity. For a short period time clients who have attained the age of 70 ½ years may make charitable contributions directly to a charity from their KEOGH plans. In the past, KEOGH assets could only be gifted from the participant after taking a distribution from the KEOGH plan. While the distribution from the KEOGH would be offset by the charitable contribution, the increase to the adjusted gross income could have a negative impact. This change avoids that result.

If it's a question of giving your money to the IRS or to your favorite charity, most of our clients opt for the charity. Please call us to discuss how to effectuate a plan that incorporates these strategies and combines them to help you make the most of your charitable giving opportunities.

November 2006