Split-Interest Charitable Gifts

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.

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