Charitable Legacy Planning

There are several strategies for giving to charity as part of a legacy plan. Each approach works differently, so it's important to understand how they work and consider what impact you want to make. Choosing the right strategy can help ensure your estate planning reflects your values and goals.

Estate Transfer Taxes: A Primer

The *estate tax* is a tax on the transfer of wealth after a person's death. It is calculated based on an individual's net worth, with certain bequests subtracted and prior gifts that used part of the exemption added back in. An estate tax credit or exclusion then applies to determine if estate tax will be due.

In 2025, the estate tax exemption is $13,990,000 per individual. If the calculation leaves less than the exemption amount, no estate tax will be due. Keep in mind that some states may have their own estate or inheritance taxes as well.

One important provision is the *unlimited charitable deduction*. In other words, there is no limit to how much you can contribute to charity. Bequests to qualified charitable organizations can reduce your taxable estate, making this an effective way to create impact while potentially lowering or eliminating estate taxes.

Naming a Charity as a Beneficiary of an IRA or Retirement Plan

People who have assets in an individual retirement account (IRA) or pre-tax assets in an employer-sponsored retirement plan can name a charity as the beneficiary. This can be a simple way to make a charitable impact while effectively removing these assets you're donating from your taxable estate.

Because of their tax-exempt status, charities that receive these assets do not pay income taxes on them—unlike individual beneficiaries.

Often, individuals choose to segment their charitable gifts by creating a separate retirement account designated just for charity, while naming other beneficiaries for their remaining accounts.

Make an Outright Bequest in Your Will

If you are updating or establishing your will, a *direct bequest* can also be a simple way to leave a charitable legacy. Generally, this involves working with an attorney to add language specifying the charities you want to support and the exact amount of the gift you want to give to each one. This approach is well suited for smaller bequests and donations intended for general use by the organization. However, establishing charitable bequests in a will can be harder to change if needed, as the document will need to be updated.

Instead of naming specific charities in your will, you can designate a donor-advised fund (DAF) and fund it through your estate. This option offers greater flexibility if your desired causes change over time, as distributions to charities are determined later. However, it does require a trustee to carry out your wishes regarding those distributions.

Specifying fixed amounts can create challenges if your estate’s liquidity is uncertain. Discuss these details with your attorney to ensure your intentions are honored effectively.

Donor-Advised Funds

A DAF is a charitable investment account managed by a sponsoring charitable organization. Contributions to the fund provide donors with a charitable tax deduction based on the type of asset donated. Once assets are contributed, they are removed from the donor’s estate. These funds can be invested, allowing them to grow and create an ongoing impact.

DAFs can be set up with a trustee and successor, enabling future generations to direct distributions to charities. Many individuals establish a DAF during their lifetime as part of their annual giving strategy. This approach supports ongoing philanthropy and engages heirs in the mission of giving, ensuring continuity of charitable values across generations.

Using a Charitable Trust

A charitable trust can be another effective strategy for legacy planning. While there are many ways to structure these trusts, they generally fall into two main categories, distinguished by when the charity receives the assets.

Charitable Lead Trust (CLT)

- A CLT provides income to one or more charities for a specified period after your death.
  - Once the payments are complete, the remaining principal passes to your heirs.
  - The charitable benefit is based on the value of the income interest.

Charitable Remainder Trust (CRT)

- A CRT provides income to your family or heirs for a set period, or for the lifetime of designated beneficiaries.
  - After the income period ends, the remaining assets go to the selected charity or charities.
  - The charitable benefit is based on the remainder interest.

Note: Establishing a charitable trust involves legal and administrative costs. Consult with an attorney or financial advisor to determine the best structure for your goals.

Charitable Lead Trusts: More Information

A charitable lead trust (CLT) allows you to strategically leverage assets to accomplish multiple goals: providing a charitable impact and passing assets to heirs. This type of trust usually works best with assets that are expected to appreciate over time. A CLT can be set up during your lifetime or through your will after death.

Assets that pass by way of a CLT after death are not subject to estate taxes, but they do not receive a step-up in basis for the non-charitable beneficiaries. CLTs are not tax-exempt. The non-charitable beneficiaries are responsible for paying taxes on income generated by the trust.

Here’s how a CLT works.

- First, you fund the CLT with a defined amount of money.
- Next, the CLT makes payments to the designated charity on a fixed schedule for the defined length of the trust. Often, this means annual donations for five, 10, or 20 years.
- After the defined term, remaining assets in the trust flow back to you, or to other beneficiaries, often termed *remainder beneficiaries*.
- Ideally, the assets in the trust grow during this time, generating income for charitable payments, preserving the principal, and creating additional growth for heirs.

Charitable Remainder Trusts: More Information

Unlike CLTs, charitable remainder trusts (CRT) are tax-exempt entities. This allows assets funding the trust to be sold and diversified, creating a stream of income for the non-charitable beneficiaries.

This type of strategy would usually be leveraged while the donor is alive to take advantage of a charitable deduction, providing a stream of income to themselves or their heirs, and removing taxable assets from their estate. A portion of the donation would be brought back into the estate at death through the charitable income tax deduction.

If you choose to pursue this strategy, it is important to make sure the trust is structured properly. Payment amounts and durations must be calculated to align with beneficiary income needs and the desired charitable deduction.

Here's how a CRT works:

1. The donor creates the trust and funds it with a principal amount.
2. A fixed payment is provided from the trust to beneficiaries for their lifetimes, not to exceed 25 years.
3. When the payment period ends, the remaining balance of the trust is distributed to the named charities.

Sources:

Internal Revenue Services| Estate Tax. Last Updated: October 29, 2025

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