Should You Set Up a Charitable Trust?

An estate plan provides the opportunity to give to good causes.

By Rachel Hartman | Edited by Emily Brandon
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If you are passionate about a cause, leaving a charitable trust can be a way to make an impact.(GETTY IMAGES)

If you have extra funds and want to support a cause, a charitable trust might be an option. "A charitable trust can only be set up to give money to a charitable cause, but it also is a valued way to pass assets down to beneficiaries without the burden of estate or gift tax," says Anthony Martin, CEO of Choice Mutual, based in Reno, Nevada. It can be helpful to understand the basics of how charitable trusts work as you evaluate if one is right for your financial plan.

When thinking about setting up a charitable trust, you'll want to:

- Recognize the various types of charitable trusts.
- Think through the advantages of a charitable trust.
- Consider the charitable trust disadvantages.
- Review your financial plan.

Types of Charitable Trusts

A charitable trust can be set up in different ways and have various tax impacts. Two common types are the charitable remainder trust and the charitable lead trust. There are variations within these categories as well.

If you set up a charitable remainder trust, you'll fund it first with cash or other assets. The trust pays out an income stream to your family members or beneficiaries during their lifetimes or for an established period of time. Upon death or when the period expires, the remaining assets go to the charity.

In a charitable lead trust, payments from the trust will be sent first to the charity and the remainder transfers to the beneficiary at the end of the trust term. This type of trust is often funded as part of an estate plan, and can reduce the taxes owed by the beneficiary. "The estate gets a charitable deduction, and the beneficiaries receive the remainder," says Joanne Burke, founder of Birch Street Financial Advisors in Vienna, Virginia.

When deciding which type of trust to get, it can be helpful to speak to a financial advisor to compare the choices. "It's important to understand the aspects in each one and how the money will be paid out during the duration of the trust, as well as what happens when the trust has reached its limit," Martin says.

Advantages of Charitable Trusts

If you are passionate about a cause, leaving a charitable trust can be a way to make an impact. "A charitable trust can allow a grantor to leave behind everything they have acquired, knowing it's going to a good cause," Martin says. Your legacy will carry on with the organization and among those who are aware of the trust.

Another benefit of charitable trusts is a lower tax burden for yourself and your beneficiaries. “This is a great advantage if the donor doesn’t want a heavy initial tax impact on their beneficiaries, or if there are multiple assets a grantor wants to be able to pass on to the next generations without that dreaded tax burden,” Martin says. “This can also help reduce the value of your estate, once more easing the tax burden to your loved ones,” Martin says.

If you’re concerned about a sale that will trigger high taxes, a charitable trust may help. “Oftentimes a large capital gain, let’s say a gain of $250,000 or more, is enough of a taxable gain that can cause many investors to take pause before selling the asset,” says **Barry Spencer**, co-creator of Wealth With No Regrets in Alpharetta, Georgia. “Common high gain assets include real estate, individual stock or closely held businesses, to name a few.” By setting up a trust, you can move the high gain asset into the charitable trust. The move makes the trust the owner of the asset. “Once the high gain asset is inside the trust, the investor can sell the asset, avoiding the capital gain at the time of the sale,” Spencer says.

Disadvantages of Charitable Trusts

There are fees connected to establishing and managing a trust. In addition, trusts tend to be irrevocable, meaning if your financial situation changes, it could be hard to access funds. “Once the trust is established, it cannot very easily be changed,” Spencer says. It’s also possible that family members or other heirs may not agree with your decision to donate your assets to a given cause, which can create family tension.

How Much Do You Need for a Charitable Trust?

You’ll want to make sure the benefits associated with the charitable trust outweigh the management costs involved. Also, evaluate your situation to determine if you have funds to spare. “This money should be considered ‘surplus,’ and not ‘essential’ money for living,” Spencer says. You’ll want to have debts paid off and be certain that if your financial situation fluctuates in the coming years, you won’t need to access the assets in the trust.

The exact amount to put in a trust will vary based on your circumstances and personal preferences. Talking to an advisor and looking at your overall financial plan may be the best starting point to decide if a charitable trust is right for you, your loved ones and the charity of your choice.

Barry H. Spencer (www.wealthwithnoregrets.com) is the author of *The Secret of Wealth With No Regrets* and a contributor to three other books. He is a financial educator, industry thought leader and philanthropic and retirement income planning specialist. Spencer has appeared in publications such as *Forbes, Kiplinger,* and *Worth*, and TV affiliates of ABC, CBS and NBC. He’s been interviewed by an original “shark,” Kevin Harrington, on the Emmy-winning *Shark Tank,* and by James Malinchak, who was featured on ABC-TV’s hit show *Secret Millionaire.*