



STABLISH  
FOUNDATION


## The Legacy Digest

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### Use of Charitable Remainder Trust Versus Donor Advised Funds

Charitable Remainder Trusts (CRT) and Donor Advised Funds (DAF) are often recommended by financial advisors, attorneys, and accountants as useful tools for a client's income tax and estate planning. Below are descriptions of a CRT and a DAF, as well as explanations of how a donor might benefit from the use of each one or, possibly, both.

- ◆ **Charitable Remainder Trust:** A CRT is generally created by a client who has highly appreciated property, such as publicly traded stock, a business, or real estate. Instead of selling the asset and paying a significant amount of capital gains tax, the client donates the asset to a CRT and the trust sells the asset, leaving no capital gains to be paid by the client/donor. The trust does not pay any capital gains tax since the CRT is treated as a tax-exempt entity by the IRS. The CRT reinvests the funds from the sale into an income producing asset and the donor receives an annual predetermined income flow at a specific percentage of the value transferred or at a variable percentage based on the annual valuation of the assets. Generally, this amount is paid for the donor's lifetime, and they report the income each year as ordinary income. In addition, the client receives a partial charitable tax deduction in the year of the gift based on an actuarially calculated percentage of the value transferred. Once the donor (or other recipients) dies, the remaining value is distributed to charity.



◆ **Donor Advised Fund:** A DAF is an account or trust that is held by a sponsoring non-profit organization, such as Stablish Foundation, which allows the client to take a full deduction of the assets transferred, subject to limitations under the Internal Revenue Code. Generally, the client “advises” the sponsoring organization which charities they would like to receive a gift. Normally, 5% of the annual value is given to the charities requested by the donor. Stablish Foundation vets the requested charities to determine whether they are acceptable legal recipients of the annual gifts. A DAF potentially can continue for a significant length of time, permitting the donor, even after their death, to support their requested charities, thereby creating a legacy for the donor. It is important to remember that the donor will not receive an income stream if the DAF is created during his or her lifetime.

◆ **Combination of a DAF and a CRT:** In many circumstances, clients will name a DAF as the recipient of the assets from a CRT at the time of their death, rather than naming a specific charity or charities. The benefit of this approach is the client/donor will receive an income stream during their lifetime and then a DAF is created at death to benefit the requested charities, creating a legacy for the donor.

Once a DAF is established after death, the original documents may name members of the donor’s family as the “advisor” to the fund in determining the charities receiving the annual gifts.

**In summary:** ————— ◆

**Charitable Remainder Trust Advantages:**

- ◆ Current partial income tax deduction to donor
- ◆ Generally, the assets are not subject to gift or estate taxes
- ◆ Donor has full control of the charities selected
- ◆ Can create a steady income to donor from the appreciated assets contributed

**Donor Advised Fund Advantages:**

- ◆ Full charitable income tax deduction
- ◆ No gift or estate tax implications
- ◆ Permits a change in recommendation of the ultimate charities
- ◆ Permits descendants to continue in the charitable legacy

Finally, using a DAF in combination with a CRT provides the most flexible option, primarily because the charities can be changed until the death of the donor. In this instance, a professional adviser is critical in the creation of a plan for the donor in order to evaluate both the income tax and estate planning implications.

Stablish Foundation, a Community Foundation, can act as trustee for any type of charitable trust created by the donor and their professional advisors.

## Featured Charity

### Camp Odayin



Summer is a fun time for children. The time when school is out, the days are long, and they can be outside playing with other kids. But what if you have a heart condition that limits what you can do safely? Do you just sit and wish you could play freely with the other kids? It might be a sad summer for you and your family, but not if you can go to Camp Odayin!

At facilities in Minnesota and Wisconsin, kids with heart disease have a safe, inclusive environment where the activities are designed specifically for them. They are no longer the outlier. At Camp Odayin, they are with other kids who “are just like them!”

One of the Stablish Foundation donors, supports Camp Odayin through their Donor Advised Fund. The annual gift helps Camp Odayin to continue helping kids to have fun, improve their mental health and build lifelong relationships with other kids who “get them.”

To learn more about Camp Odayin, go to [www.campodayin.org](http://www.campodayin.org). And to learn how you can set up a Donor Advised Fund and support the charities of your choice, go to <https://www.stablish.org> or call Amy at 952-854-9188.



### Giving Vocabulary: 501(c)3 Charity

A 501(c)3 charity is a nonprofit organization established exclusively for one of the following purposes: Charitable, religious, educational, scientific, literary, testing for public safety, fostering national or international amateur sports competition, or preventing cruelty to children or animals. A 501(c) charity is usually exempt from paying federal income taxes. Donations to a 501(c)3 organization are often tax deductible to the donor.

## Why Stablish



Most people would like to be remembered in a positive way after their death. But even though people usually know what positive values they wish to pass on, they might not have an idea how to effectively demonstrate them.

At Stablish Foundation, we take the time to get to know you and to help you identify the specific charities and/or programs that demonstrate the values, interests, and goals that you have lived by . . . thereby creating a Legacy for you that will continue long after you are gone.

VALUES  
**Legacy**  
Goals



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FOUNDATION

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