

Charitable Giving Review

Morgan Stanley Global Impact Funding Trust, Inc. (Morgan Stanley GIFT) is pleased to take this opportunity to provide you with an overview of some of the common methods that individuals use to make charitable gifts, along with some important tips that you should keep in mind.

This newsletter is not intended to cover every available charitable giving strategy, nor to address every issue that may arise. However, it does provide a brief survey of many of the most common strategies that one may use in connection with a donor advised fund and deals with the most common questions that we encounter.

Charitable Deductions In General

Many organizations may be referred to as “charities,” but there actually are five different types of organizations that are exempt from the federal income tax under section 501(c)(3) of the Internal Revenue Code. The first two categories generally are referred to as public charities; the third category generally is referred to as a supporting organization or quasi-public organization; the fourth consists of organizations that conduct tests for public safety; and the fifth is referred to as a “private charity,” a “private foundation,” “family foundation” or simply as a “foundation.”

Public charities generally consist of religious organizations, schools and colleges, hospitals and organizations that receive a substantial portion of their

revenue from the general public. Morgan Stanley GIFT (MS GIFT) is a public charity. Supporting organizations and public safety organizations are generally treated as public charities for income tax deduction purposes. Private foundations, on the other hand, typically receive most — if not all — of their revenue from a small number of sources.

Under federal tax law, generally an individual may not offset his or her entire income in one tax year by utilizing the itemized deduction for charitable contributions. Instead, the charitable deduction for a charitable contribution made during any one tax year is limited to a percentage of the individual's contribution base (essentially, his or her adjusted gross income). The individual may carry forward any charitable deductions for the year in excess of the percentage limitation for up to five succeeding calendar years.

The percentage limitation for a charitable deduction depends upon the type of charity to which the contribution is made. With respect to the type or organization, gifts to private foundations generally are subject to stricter limits on their deductibility than gifts to public charities

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such as MS GIFT. This means that donors seeking to make large deductible contributions to a charitable organization may be less inclined to make the gift to a private foundation, as the value of the gift may not be fully deductible in the year in which the gift is made.

Federal tax laws impose another important limit on the amount of the deduction for a charitable contribution, which is based upon the type of property contributed. For gifts of money, the amount of the deduction is based upon the amount of money being transferred. For gifts of property other than money, the amount of the deduction is based upon how the sale proceeds would be

taxed if the property were sold. The federal tax laws essentially recognize three categories of noncash property: long-term capital gain property, ordinary income property and short-term capital gain property. Contributions of long-term capital gain property generally are deductible up to the fair market value of that property, while contributions of ordinary income property and short-term capital gain property generally are deductible only up to the lesser of the fair market value of the property and the donor's basis in the property.



The “Charitable Deduction Limitations” chart summarizes the different charitable deduction limitations applicable to gifts to public charities and private foundations. As shown below, one might be able to claim a larger deduction by making a contribution to a public charity rather than to a private foundation.⁽¹⁾

Charitable Deduction Limitations

TYPE OF CONTRIBUTION	CONTRIBUTIONS TO DONOR ADVISED FUNDS AND OTHER PUBLIC CHARITIES		CONTRIBUTIONS TO PRIVATE FOUNDATIONS	
	Amount Deductible	Percentage Limitation ⁽²⁾	Amount Deductible	Percentage Limitation
Cash	Fair Market Value (FMV)	60% ⁽³⁾	FMV	30%
Ordinary-income property, such as inventory, certain depreciable property, agricultural products, oil and gas property, Sec. 306 stock, collapsible corporation stock, original-issue discount debt instruments, market-discount bonds, artwork by its creator, and other property, the sale of which at fair market value would yield ordinary income	Lesser of FMV and donor's basis	50%	Lesser of FMV and donor's basis	30%
Short-term capital gain property such as stocks, bonds and other capital assets, the sale of which at fair market value would yield short-term capital gain	Lesser of FMV and donor's basis	50%	Lesser of FMV and donor's basis	30%
Long-term capital gain property, such as stocks, bonds and other capital assets, the sale of which at fair market value would yield long-term capital gain				
A. General rule	FMV	30%	Lesser of FMV and donor's basis	20%
B. If election is made to reduce the amount of the deduction	Donor's basis	50%	N/A	
C. Qualified appreciated stock	FMV	30%	FMV ⁽⁴⁾	20%
Tangible personal property, if use of property by donee is unrelated to donee's exempt purpose or function	Lesser of FMV and donor's basis	50%	Lesser of FMV and donor's basis	20%

1. This is only the case if (i) one is contributing appreciated assets or (ii) one's total annual contributions are greater than the applicable AGI limitation for private foundation contributions.
2. The limitation is a percentage of one's AGI of the year.
3. In 2021, the limit is 100% of the donor's contribution base for cash contributions made to qualifying public charities. Cash contributions to donor advised funds, such as MS GIFT, do not qualify for this higher limit.
4. If the donor's contribution of stock to one or more private foundations exceeds 10% of the value of all of the outstanding stock in the corporation, then the amount deductible is the lesser of the fair market value of the stock and the donor's basis.

Establishing Your Own Philanthropic Fund

Donor Advised Funds

SUMMARY A donor advised fund (or DAF) is an account established with a qualified charity (known as the DAF's "sponsoring organization") that permits the donor (and/or other parties designated by the donor) the right to make nonbinding recommendations to the charity with respect to the fund's administration. MS GIFT has served as the sponsoring organization of numerous DAF accounts since 2000. Recommendations that may be made with respect to a DAF's administration include grants to other charities. Although contributions to a donor advised fund are pooled for purposes of investment and management by MS GIFT, an account is maintained on the charity's books reflecting each donor's contribution and adjusted to take into account: (a) grants made, (b) a share of the income, gains and losses, and (c) management and other charges imposed upon each donor's account. Periodic reports or statements are normally provided to donors reflecting the account balance and these adjustments.

PROS Donor advised funds are very simple to establish, can be created quickly and do not require any maintenance, tax return or additional obligations on the part of the donor. In most cases, starting a fund only requires selecting a charity to administer the fund, opening an account by completing an application and arranging for a contribution to the account. Because DAFs are maintained by public charities, a contribution to a DAF will receive the maximum potential charitable income tax deduction (which is not always the case with a contribution to a private foundation)⁽⁵⁾.

CONS A contribution to a DAF is irrevocable. Furthermore, legally, the donor may only make recommendations as to gifts from the fund; the donor's

wishes with respect to the fund are not legally binding upon the DAF. Thus, a donor has no assurance that his or her wishes will be followed. In addition, most DAFs have restrictions with respect to the types of grants that they will approve. For example, many DAFs prohibit grants to non-U.S.-based organizations and private foundations. However, DAFs sponsored by MS GIFT may make grants to foreign charities if certain procedures are followed.

Private Foundations

SUMMARY A private foundation is a nongovernmental, non-profit organization (either a corporation or a trust) with a fund managed for charitable purposes by its officers or trustees. Private foundations usually derive their funding from a single source, such as an individual, a family or a corporation. Most private foundations make grants to public charities, although a private operating foundation actually operates a program or programs or provides direct services that are charitable, educational or religious in nature or that otherwise serve the public good. Private foundations are generally exempt from income taxes on income earned. Nonoperating private foundations, though, must pay an annual excise tax equal to 1.39 percent of their net investment income.

PROS Gifts to establish or grow a private foundation are deductible for income tax, gift tax and estate tax purposes. Lifetime contributions of appreciated publicly traded securities, for example, are deductible at their full fair market value (but subject to percentage income limitations). Private foundations offer their founders a high level of control over the organizations' operations. The donor (and his or her family in the case of a family foundation) can continue to control the investments of the foundation and the recipients and amounts of grants.

CONS Because of past abuses of private foundations, they are subject to numerous restrictions and regulations to assure that the foundation is used to further charitable purposes rather than to benefit the creator or his or her family. Examples include a requirement that private foundations distribute annually approximately 5 percent of their total assets, prohibitions on most financial transactions between private foundations and their major donors and board members, and prohibitions on certain types of grants. These restrictions create many traps for the unwary. Because of federal organizational and operating restrictions and regulations, together with state registration and reporting requirements, private foundations are relatively expensive to create and maintain, and great care must be taken in their operation to avoid inadvertent violation of federal and state rules and restrictions. Consequently, private foundations should be considered only by individuals who are willing to commit substantial resources to charitable endeavors.

5. In 2021, however, deductions for cash contributions to a DAF are limited to a lower percentage of the donor's contribution base than deductions for cash contributions to certain qualifying public charities.

Substantiation and Valuation

A taxpayer who wishes to claim a charitable deduction must adequately substantiate and value his or her charitable contribution. Record keeping therefore is critical to securing a deduction for a charitable gift.

For a monetary gift, no deduction is allowed unless the donor maintains a record in the form of a bank record or a written communication from the donee showing the name of the donee organization and the date of and amount of the contribution. Also, for any contribution of \$250 or more, including contributions of any kind of property, a contemporaneous written acknowledgment from the organization must be obtained before a deduction will be allowed. An appraisal by a qualified appraiser generally must be done for any noncash contribution worth more than \$5,000. A separate form must be attached to the donor's income tax return for noncash Contributions over \$500. Substantial tax penalties apply for certain overstatements of the value of donated property. When a donor contributes property to a DAF at MS GIFT, MS GIFT will send a grant acknowledgement letter to the donor confirming receipt of the property. Copies of prior acknowledgement letters also are available on MS GIFT's website.

Outright Gifts

A. CASH Cash contributions are deductible on a dollar for dollar basis, if the substantiation requirements are satisfied.

B. MARKETABLE SECURITIES

Publicly traded marketable securities are deductible at their fair market value on the date of the gift if they have been held for longer than one year. For these purposes, the fair market value of a stock or bond is the mean of its high and low prices on the date of the gift. Mutual funds generally are valued using their closing price for the date of the gift.

C. CLOTHING, USED ITEMS AND OTHER TANGIBLE PERSONAL PROPERTY

Household goods and used clothing are usually worth far less than the original price paid when new. Deductions are permitted only for items in good used condition or better. Substantiation requirements for noncash charitable contributions must also be satisfied in order for donations of household goods and clothing to be deductible. Used items not in good used condition valued at more than \$500 require a qualified written appraisal. Deductions for gifts of paintings, antiques and other objects of art may be subject to special rules and reporting requirements. Any art valued at more than \$5,000 must be supported by a qualified appraisal, and special rules apply to items worth \$20,000 or more. Items valued at \$50,000 or more may be pre-valued by the IRS. Generally, the creator of artwork can deduct only the cost of materials used in creating the work. Similarly, the deduction for gifts of artwork and other tangible personal property is limited to the lesser of the fair market value of the work and the donor's basis if (i) the gift is made to a grant-making private foundation or (ii) the gift is made to a public charity and the charity's use of the property is unrelated to its exempt purpose.

D. CLOSELY HELD STOCK, LIMITED PARTNERSHIP INTERESTS AND LIMITED LIABILITY COMPANY INTERESTS

When a donor gives an interest held for longer than a year in a closely held business to a donor advised fund or other public charity, the value of the gift is generally the fair market value of the interest transferred. Gifts of such interests must be supported by a qualified appraisal of their fair market value at the time of the gift if the interests are valued at over \$10,000. The appraisal should take into account a variety of factors, such as net worth, prospective earning power, dividend-paying capacity, goodwill, the nature and history of the business, the economic outlook for the particular industry, the company's position in its industry, the company's competitors, the company's management and the value of

securities of entities engaged in the same or a similar business. Any restrictions on transferring the securities — whether imposed by federal law, the entity's governing instrument or a shareholder agreement — also should be considered. The value of gifts of a closely held business to private foundations are not favored for tax purposes. When gifts of this type of property are made to private foundations, the donor's charitable deduction is limited to the lesser of the fair market value of the interest and his or her cost basis.

E. INDIVIDUAL RETIREMENT ACCOUNTS

There is a special federal tax provision that permits individuals age 70½ or older who wish to fund gifts to charities from their individual retirement accounts to engage in what is sometimes known as an "IRA qualified charitable distribution." Under this provision, an individual may make distributions from a traditional IRA up to an aggregate of \$100,000 during the year directly to qualified charities of his or her choice.⁽⁶⁾ These distributions receive very favorable federal tax treatment: they are not included in the traditional IRA owner's gross income, but they nonetheless count against the required minimum distribution that the IRA owner must otherwise take after reaching age 72 (70½ if the IRA owner reached age 70½ before January 1, 2020).⁽⁷⁾⁽⁸⁾ In addition, the distribution to charity does not affect the amount the donor can otherwise give to charity on a fully deductible basis. Unfortunately, this special provision prohibits making an IRA qualified charitable distribution to a donor advised fund, a private nonoperating foundation or a supporting organization. Individuals who wish to do so still may make gifts to DAF accounts using funds held in their IRAs. An individual donor may withdraw funds from his or her IRA and then contribute them to a DAF account. For federal tax purposes, the funds withdrawn from the IRA are included in the individual's gross income, and the individual is eligible for an income tax charitable deduction to the extent permitted by law.

6. Qualified charitable distributions can also be made directly from Roth IRAs and, in limited circumstances, from SIMPLE or SEP IRAs to which no employer contributions are being made.
7. While the Setting Every Community Up for Retirement Enhancement Act of 2019 (the SECURE Act) raised the age for IRA owners to begin taking required minimum distributions to 72, it left the age at which IRA owners can make qualified charitable distributions at 70½.
8. The Coronavirus Aid, Relief, and Economic Security Act (the CARES Act) generally waived required minimum distributions for 2020.



F. LIFE INSURANCE & ANNUITIES

The value of the gift of a life insurance policy is generally its replacement value, which is the amount that the insurance company would charge for a comparable contract. On request, life insurance companies normally will provide a written statement of such value. However, if the charitable donee reasonably may be expected to cash in the policy rather than hold it as an investment, the fair market value for deduction purposes is the cash surrender value of the policy rather than the replacement cost.

A donor will not receive a charitable deduction merely by naming the charity as a beneficiary of the policy. Instead, the donor must transfer full ownership of the policy to the charity. In many cases where a donor gives a policy to a charity, the donor will then make annual tax-deductible gifts to the charity to cover future premiums. Note, if the donor plans to make subsequent gifts to the charity to cover premium payments and wishes to deduct such future gifts, there may not be a binding obligation on the part of the charity to retain the policy. When a gift of a life insurance policy is made to a DAF, MS GIFT typically will withdraw the cash value of the policy. The gift of an annuity to a charity can have complicated tax implications. The gift of the annuity can cause the donor to recognize ordinary income equal to the difference between the cash surrender value and

the donor's investment in the contract. However, the donor may deduct the fair market value of the annuity (i.e., the cash surrender value).

G. REAL ESTATE

Each piece of real estate is unique so the fair market value of a charitable contribution of real estate must be established by a qualified appraisal by a qualified appraiser. Generally, one or more of three factors determine the approach to real estate valuation: comparable sales (with appropriate adjustments for differences in the properties), capitalization of income, and/or replacement cost (less depreciation). The weight given to these factors may depend upon whether the real estate is used for commercial or residential purposes. The deduction will be limited to the lesser of fair market value and basis if the gift is to a private foundation.

Deferred Gifts and Gifts Using Trusts

Pledges

SUMMARY A pledge is a promise to make a gift in the future.

PROS The benefit to an individual of making a pledge is that the individual is not required to make the gift currently. Instead, the gift will not be made until some time in the future.

CONS Since the gift is not being made currently, an individual making a pledge will receive no tax benefit from the pledge until the individual fulfills the pledge by actually making the gift. Also, personal pledges cannot be satisfied from a private foundation or a donor advised fund.

Remainder Interest in a Residence

SUMMARY A gift of a remainder interest in a person's personal residence is an irrevocable gift of the residence, subject to the donor's retained right to use the residence during his or her lifetime. In order to make this gift, the owner will typically sign a new deed to his or her residence, conveying the remainder interest to charity. The charity thus becomes the full owner of the property only at the donor's death. The donor and the charity often will execute a separate agreement that specifies who will be responsible for the costs of maintaining the residence (e.g., real estate taxes, maintenance, structural repairs and insurance). This separate agreement, however, is not required because local law normally will state who is responsible for these costs. In most cases, the donor will be responsible for the cost of maintenance, though the costs of structural repairs and capital improvements often are divided between the donor and the charity unless there is an agreement to the contrary.

PROS An individual can make an immediate charitable gift and receive a current deduction for the actuarial value of the remainder interest while still retaining the use and enjoyment of the residence for life. The donor does not have to move out of the house during life and cannot be forced to sell it by the charity.

CONS The gift is irrevocable once it is made. Thus, a donor cannot later change his or her mind. In addition, if the home is sold, in most circumstances the donor and the charity will divide the sale proceeds in proportion to the actuarial value of their interests. This means that the donor's share of the sale proceeds may not be sufficient for the donor to purchase a comparable replacement residence.

Lifetime Charitable Remainder Trusts

SUMMARY A lifetime charitable remainder trust (or CRT) is a trust that grants a current right to annual payments to one or more noncharitable beneficiaries (the "income beneficiaries") for the lives of those beneficiaries or for a term of years (not to exceed 20 years), and provides that the remaining trust property will pass to one or more charitable beneficiaries at the end of that period. The donor makes a completed gift to the trust when it is created, a portion of which is treated as charitable. The charitable component of the gift is equal to the difference between the fair market value of the property contributed to the trust and the value of the income beneficiaries' interest in payments from the trust. The charitable and noncharitable interests are valued using actuarial tables published by the Internal Revenue Service. If the donor retains the current interest in the trust and/or designates his or her spouse, then there is no taxable gift for gift tax purposes, though a gift tax return may still need to be filed.

The value of the gift to charity qualifies for an income tax deduction for the donor of the CRT, subject to the applicable

percentage limitations discussed on the chart shown in Section I. The percentage limitations applicable to the gift depends upon the type of charity that benefits from the remainder. If MS GIFT or another public charity is the beneficiary, the higher limits applicable to public charities will be available. If, however, a private foundation is or can be the remainder beneficiary, then the lower percentage limitations will apply. CRTs, themselves, are not subject to the 3.8 percent net investment income tax that became effective in January 2013; however, property distributed from a CRT to an income beneficiary may be subject to the tax.

There are many different types of CRTs, each providing different benefits (and detriments) to the creator of the trust. One type of CRT is a charitable remainder annuity trust, or a CRAT for short. A CRAT provides that the noncharitable beneficiaries will receive a fixed specific dollar amount from the trust each year (e.g., \$50,000 per year). A charitable remainder unitrust (or CRUT) is a trust in which the income beneficiaries receive an annual payment from the trust equal to a stated percentage of the fair market value of the trust as valued on a fixed date each year (e.g., distribute to the income beneficiary 5 percent of the fair market value of the trust as determined on the first day of each year). Thus, the amount of the payment from a CRUT may vary each year as the value of the trust assets changes.

There are several different variations on a basic fixed percentage CRUT that an individual may establish, each providing different benefits and detriments. Regardless of which type of CRT is established, the minimum payout percentage can never be less than five percent, nor more than fifty percent. In addition, the value of the charity's actuarially-determined interest in the trust may not be less than ten percent of the value of the trust at the time the trust is established.

Given their different structures, CRATs and CRUTs may be appropriate for

different types of donors. CRATs offer greater simplicity in administration. They also may be more attractive for donors and income beneficiaries who require a set payout, rather than one that fluctuates with market conditions. A CRUT is more appropriate for donors and income beneficiaries who are not risk averse, and who are willing and able to participate in the upside and downside of the trust's investment performance. The possibility for rising payments also may be attractive for individuals who wish to use a CRUT as a hedge against anticipated future inflation.

Example of a Lifetime CRAT

ASSUMPTIONS

A 72-year old donor contributes assets to a CRAT valued at \$1,000,000 during January 2018. The CRAT will pay to the donor a fixed annuity of \$50,000 per year for the donor's life. Also assume that the donor funds the CRAT with marketable securities that were purchased for \$1, but which the CRAT will immediately sell and reinvest.

RESULTS

The donor is deemed to have made a charitable gift that will be eligible for the charitable income tax deduction for the year 2018. The actuarially determined amount of the deduction is equal to \$480,535. Neither the donor nor the CRAT pays any income tax when the stock is sold. Each year, when the donor receives a distribution from the CRAT, the donor will have income equal to the amount of income earned by the CRAT, but not in excess of \$50,000. To the extent the CRAT does not have ordinary income equal to \$50,000 for the year, the donor will have capital gain income (but not in excess of \$50,000, minus the amount of other income the donor is treated as receiving from the CRAT), to the extent the CRAT has capital gains that are not treated as previously distributed to the donor.

PROS Charitable giving through the use of a CRT is a common strategy for an individual who is both philanthropic and who has highly appreciated securities that he or she would like to sell without paying an immediate income tax. A distinct advantage of such a trust, to the extent that it is funded with highly appreciated securities, is that future income is based on the full fair market value of the assets given undiminished by capital gains taxes, because such a trust is not subject to income taxes on gains from the sale of appreciated assets. This means that one can receive income from the full value of the contributed assets, as opposed to income on only the net after-tax proceeds from the sale of the assets. A CRT thus allows an individual who owns highly appreciated assets to diversify his or her portfolio without reducing the size of the portfolio by the tax on the built-in gains. A CRT also can be created at death to obtain estate tax savings. The CRT would provide an income stream to one or more individuals starting at the death of the donor and benefit a charity at termination of the CRT. In addition, CRTs are not subject to the net investment income tax. Although distribution will be subject to the tax in the hands of the beneficiaries, CRTs allow net investment income to be harbored in a tax-exempt environment and defer any tax until proceeds are distributed, likely over an extended period of time.

CONS Except for the income payments described above, assets contributed to a CRT eventually pass to the charitable beneficiaries when the trust ends. The “cost” to the donor’s heirs is partially offset by (a) the donor’s income tax charitable deduction, (b) the avoidance of immediate capital gains taxes on the given assets when such assets are sold by the CRT, and (c) estate tax savings. This usually leaves a larger amount to produce income for the life income beneficiaries of the trust than if the assets were sold, the capital gains taxes were then paid and only the net after-tax proceeds were reinvested.

Lifetime Charitable Lead Trusts

SUMMARY A charitable lead trust (a CLT) is a trust that grants an annuity or unitrust interest to various charities and provides for the remainder of the trust assets to pass to noncharitable remainder beneficiaries. The gift by the donor to the trust is a completed gift for gift and estate tax purposes. The amount of the gift to the noncharitable beneficiaries is the difference between the value of the property contributed to the trust and the value of the interest payable to the charities. These amounts are valued using actuarial tables published by the Internal Revenue Service. The trust can be structured so that the value of the gift can be zero for gift tax purposes. For income tax purposes, as described more fully below, the trust can allow the donor an immediate income tax deduction equal to the value of the charity’s income interest, or the trust can be structured in a manner that will permit no immediate income tax deduction at all for the donor but also will prevent any of the trust’s future income from being taxed to the donor. In contrast to a CRT, a CLT will be subject to the net investment income tax, although the effect of the tax may be mitigated or avoided by satisfying the annual distribution requirements. A charitable lead trust may be designed to provide that the charitable term (known as the lead interest) will be based upon either a specific number of years or the life or lives of one or more individuals. A charitable lead trust that pays a fixed annuity is called a charitable lead annuity trust, or a CLAT. A charitable lead trust that pays a unitrust amount is called a charitable lead unitrust, or a CLUT. A CLAT can be structured to produce a gift valued at zero for gift tax purposes, but a CLUT cannot. A CLT may be structured so that the trust is responsible for paying its own income tax. In such an arrangement, a CLT is required to report and pay income taxes on all of the trust’s income (including capital gain or loss). However, to offset the income reported by the CLT, the trust

will receive a charitable deduction each year equal to the amount that the CLT distributed to charity. The donor does not receive an income tax deduction for establishing such a CLT, but also is not responsible for paying tax on the income generated by the CLT’s assets.

In the alternative, if the CLT is formed as a “grantor trust,” the donor will receive an income tax deduction in the year that the trust is formed. The amount of the income tax deduction is the present value of the income interest that will pass to the charity. Thus, if the CLT is designed to result in a zero gift, the entire value of the assets contributed to the trust will be deductible as a charitable income tax deduction. Any charitable deductions that are not used in the current year may be carried forward for up to five years. Although a CLT that is a grantor trust will provide the donor with an immediate income tax deduction, the donor (and not the trust) is required to report all of the trust’s income, gain and loss on his or her personal income tax return each year. Because the donor of a grantor CLT receives a personal income tax deduction in the year that the trust is formed, no additional income tax charitable deductions are permitted in subsequent years for distributions from the CLT to the charitable beneficiaries..

Example of a Lifetime CLAT

Donor contributes assets to a CLAT valued at \$1,000,000 during January 2020. Assume that the CLAT is going to pay to MS GIFT a fixed annuity of \$86,210 per year for a period of 15 years and the CLAT is structured as a grantor trust. At the end of the CLAT term, the balance of the CLAT assets pass to the donor's children.

RESULTS

The donor is deemed to have made a gift to his children valued at \$0. The donor is also deemed to have made a charitable gift that will be eligible for the charitable income tax deduction for the year 2020. The amount of the deduction is equal to \$1,000,000, subject to any applicable percentage limitations for the year. If the trust investments return at least 7.8995 percent each year, then the entire principal of the trust will pass to the donor's children at the end of the 15 years.

PROS An individual forming a CLT can provide benefits to both a charity and his or her family at the same time because any assets remaining in the CLT at the end of the lead interest will pass to the noncharitable remainder beneficiaries. For individuals seeking to transfer wealth to family members without paying a gift tax, or by paying a reduced amount, a CLT may be an appropriate strategy to consider. A CLT also can be created at death.

CONS Establishing a CLT requires the creation of a trust, and that will generate some additional costs (as compared to making an outright gift of an asset).

Should the CLT's investments fail to perform, it is possible that the CLT will be depleted before the end of the CLT. In that case, the CLT will terminate, the charitable beneficiaries will cease to receive any payments and no assets will pass to the noncharitable remainder beneficiaries.

Conclusion

For those charitably inclined, there are many ways to make a charitable gift. As this publication suggests, each strategy presents its own unique pro and cons. Before making any charitable gift, it is wise to consult with experienced professionals who can work with you to ensure that your goals and objectives will be achieved.



About MS GIFT

For more information about MS GIFT and its donor advised fund program, please consult the Donor Circular and Disclosure Statement or your Financial Advisor or Private Wealth Advisor.

1. Unless otherwise noted, all discussion of tax issues relate solely to U.S. federal income tax rules. Different rules may apply under state and international law. The Morgan Stanley Global Impact Funding Trust, Inc. (MS GIFT) is an organization described in Section 501(c)(3) of the Internal Revenue Code of 1986, as amended that sponsors a donor advised fund program. MS Global Impact Funding Trust (MS GIFT) is a donor advised fund. Morgan Stanley Smith Barney LLC provides investment management services to MS GIFT. Back office administration provided by RenPSG, an unaffiliated charitable gift administrator. Morgan Stanley Smith Barney LLC ("Morgan Stanley"), its affiliates and Morgan Stanley Financial Advisors and Private Wealth Advisors do not provide tax or legal advice. Clients should consult their tax advisor for matters involving taxation and tax planning and their attorney for matters involving trust and estate planning, charitable giving, philanthropic planning and other legal matters. While we believe that MS GIFT provides a valuable philanthropic opportunity, contributions to MS GIFT are not appropriate for everyone. Other forms of charitable giving may be more appropriate depending on a donor's specific situation. Of critical importance to any person considering making a donation to MS GIFT is the fact that any such donation is an irrevocable contribution. Although donors will have certain rights to make recommendations to MS GIFT as described in the Donor Circular & Disclosure Statement, contributions become the legal property of MS GIFT when donated. The Donor Circular & Disclosure Statement describes the risks, fees and expenses associated with establishing and maintaining an MS GIFT account. Read it carefully before contributing. Although the statements of fact and data in this material have been obtained from, and are based upon, sources that the firm believes to be reliable, we do not guarantee their accuracy, and any such information may be incomplete or condensed. This material is for informational purposes only and is not intended as an offer or solicitation with respect to the purchase or sale of any security. Past performance is not a guarantee of future results. This material does not provide individually tailored investment advice. It has been prepared without regard to the individual financial circumstances and objectives of persons who receive it. The strategies and/or investments discussed in this material may not be suitable for all investors. Morgan Stanley Smith Barney LLC recommends that investors independently evaluate particular investments and strategies, and encourages investors to seek the advice of a Financial Advisor. The appropriateness of a particular investment or strategy will depend on an investor's individual circumstances and objectives. This material is not an offer to buy or sell any security or to participate in any trading strategy. Asset allocation and diversification do not guarantee a profit or protect against a loss.