

Estate Planning Red Flag - You Didn't Place Restrictions on your Charitable Gifts

Charitable giving allows you to support causes you care about while potentially reducing your estate tax burden. However, making **unrestricted** gifts to charity without careful estate planning can create unintended consequences that may diminish both your benefits and the long-term impact of the gifts.

An unrestricted gift gives a charitable organization complete discretion over how the funds are used. While this flexibility can help charities address their most pressing needs, you may be disappointed if your contributions aren't directed toward the programs or initiatives that you intended to support. Once you make the gift, you generally have no control over how the charity will allocate the funds.

Additionally, unrestricted gifts may not align with your broader estate planning objectives. Individuals with significant assets may benefit from considering charitable trusts, donor-advised funds, or private foundations that can provide greater control, flexibility, and tax efficiency.

Fortunately, you can take steps to preserve your charitable legacy. Begin by placing restrictions on your gift at the time of the donation. Typically, you might limit use of the funds to a specific cause or function of the charity, like stating that the money must be spent on medical research or shelter for the homeless. Have this documented in your will, a trust or an endowment fund agreement.

The exact rules will vary based on applicable federal and state laws but restricting gifts can generally prevent charities from using the donated funds to satisfy creditors in bankruptcy proceedings. The charity is obligated (both legally and morally) to adhere to these restrictions.

Best approach: Do your homework before making substantial gifts to a charity. Consider using the IRS Tax Exempt Organization Search (TEOS) tool. TEOS provides access to information about charitable organizations, including their latest tax returns, IRS determination letters and eligibility to receive tax-deductible contributions.