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# What are bequests?

Charitable bequests from your will combine philanthropy and tax benefits.

Bequests are gifts that are made as part of a will or trust. A bequest can be to a person, or it can be a charitable bequest to a nonprofit organization, trust or foundation. Anyone can make a bequest—in any amount—to an individual or charity. Bequests can be simple—“I give \$1,000 to my grandson”—or complex, with conditions about how the gifts can be used.

## How bequests work

There are different ways that bequests operate:

1. To make a bequest, you need to leave instructions, typically in a will. Other documents, such as beneficiary designations and revocable living trusts, may also be part of how your estate plan is managed after your death. You can detail different types of bequests in your will and update it throughout your life as your family, priorities and wishes evolve.
2. For property to be passed on after you pass away and bequests made, your will must first be “probated” or legally validated. Many states have improved the probate process, making it less expensive and faster.

If you have no will to specify your instructions, state law dictates where your property passes. Generally, this would be first to a surviving spouse, then to your children and other family in accordance with state law. If you don't leave a will and don't have any living relatives, your estate, depending on where you live, could go to the state.

# Types of bequests

There are four types of bequests, and many wills contain more than one type:

- **General bequests**—gifts of property taken from an estate's general assets.
- **Demonstrative bequests**—gifts that comes from a explicit source (such as a particular bank account).
- **Specific bequests**—gifts of property, like a painting, jewelry, car or cash (e.g., \$10,000 to my great nephew's cousin).
- **Residuary gifts**—gifts made after all of the debts and expenses are paid, and other bequests are made. These are typically a percentage of the remainder; in some cases a share (e.g., three shares of 32 total shares).

Charitable bequests can fall into any of these four categories. One common approach is to leave specific or demonstrative bequests to family members or other individuals and then leave a residuary charitable bequest to a charitable organization. These bequests can be directed to private foundations and charities that sponsor a donor-advised fund program, allowing the bequest to become an ongoing means of charitable support. That way, the individuals get exactly the amount or items you want to leave them, and the charity gets funds that remain.

Separate from a will, you can designate residuary gifts from an insurance policy or annuity, where the policy holder receives benefits during their lifetime and then gives the remainder of the policy benefits to family, friends and/or charitable recipients.

## Benefits of charitable bequests

**Flexibility:** Charitable bequests are flexible and easy to update. You can write one into a will with a short paragraph, and if circumstances change you can revoke it just as easily in a subsequent will or codicil. Estate planning professionals often counsel their clients to have an annual or bi-annual estate plan “check-up” to ensure that the most recent version of the client’s will reflects their wishes.

**Tax benefits:** Under current federal law, an estate of more than \$11.58 million will owe federal tax. In general, there is an unlimited deduction of charitable bequests against the value of an estate, making it a powerful tool for reducing estate tax. It is possible for an estate to deduct charitable bequests of not only cash, but also property such as real estate, stock, IRAs, autos and other assets. Not all assets are treated equally if inherited by heirs—for example, retirement assets are typically less advantageous to leave to heirs than appreciated securities—so there are also benefits to carefully selecting which assets to use as a part of a charitable bequest to maximize the benefits to all involved.

**Recognition:** A bequest gift can be a way to create a lasting legacy at an organization that supports the cause you care about. Nonprofit organizations have diverse ways of recognizing and honoring gifts—depending on what is funded. For example, if a university has funding minimums to create a named scholarship, those minimums would apply to bequest gifts as well.

**Efficiency:** Charitable bequests can help the efficiency of settling an estate because the bequests provide clear instructions to the executor on how to distribute certain assets in accordance with the testator's wishes. Making charitable bequests to a donor-advised fund, explained in more detail below, can also be more efficient than other types of charitable bequests because it can streamline the work for the estate executor.

## Considerations for charitable bequests

Be sure your wishes are well known to your family or a lawyer. The ability to change the beneficiaries of your charitable bequests underscores the importance of naming an executor who is thoroughly familiar with, and supports, your wishes. An executor's duty is to ensure that your philanthropic goals are carried out as closely as possible to the original intent.

Even more importantly, be sure to inform the charity of your intention to support them with your charitable bequests. Without providing them with specifics, you can't be confident the charity will be able to accept the gift or to use it as you intended. For example, perhaps you have a historic home that you wish to leave to a historic preservation society through a charitable bequest. Have you also accounted for the maintenance costs and management of that property? What if zoning limits how the charity can use the home?

Nonprofit organizations have both expertise and interest in making sure their donors' charitable bequests have as much impact as possible. Many can even support the work of your donor-advised fund (https://charitablegiftfidelity.com/efund/466FLaw.com/fid) financial planner by providing specific language to include in your estate documents to ensure that your bequest is honored.

It's also important to clearly communicate your charitable intentions to your family and other named beneficiaries. They'll understand your estate plan more fully, not just the gifts you direct to them.

## Next steps to set up a charitable bequest

The process of setting up a charitable bequest begins with you and your estate-planning attorney drawing up a comprehensive will. The rest of your wealth planning team may also be involved: your financial planner, your accountant and your tax advisor.

Creating a will with a charitable component typically entails a conversation about what you want to do with your assets, and a more specific discussion about what charitable causes and organizations you hope to support.

Talk with your attorney or your whole team about topics such as “Am I interested in leaving a philanthropic legacy?”, “Do I have causes that I feel passionately about?” or “Would I like to create a way for family to connect around giving?”

Involve your financial planner to assess the complexity of your estate, and identify which assets are best suited for distribution among the various recipients of your charitable and non-charitable bequests.

## Using a donor-advised fund to make charitable bequests

Perhaps you haven’t identified which organizations you want to benefit from your charitable bequests. Perhaps you already use a donor-advised fund to manage your giving, or want to create a way for your family to create an ongoing legacy. These are among the reasons to consider making a charitable bequest to a donor-advised fund, like the *Fidelity Charitable Giving Account* (</giving-account/giving-account-details.html>), which is a dedicated charitable account that is used exclusively for giving to charity.

If a donor-advised fund is funded through a charitable bequest at the time your will is executed, your taxable estate is reduced by the value of your gift in the same way as any other charitable gift. You can direct your executor to recommend grants immediately out of the fund to as many charities as you would like, or you can allow your executor to recommend grants over time. For example, with a Giving Account, you can enroll in an *endowed giving program* (</giving-account/planning-for-the-future.html>) which can provide an ongoing source of support for up to six charities.

Charitable bequests can also be used to effectively pass the gift of philanthropy on to the next generation. For example, you could create multiple donor-advised funds for various members of your family with bequests from your estate. Alternately, you can name an individual or individuals as *successors to your existing donor-advised fund* (</giving-account/planning-for-the-future.html>) with shared advising responsibilities, potentially becoming a reason that siblings, children, grandchildren stay knit more tightly together pursuing a shared mission.

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## How Fidelity Charitable can help

Since 1991, we have been helping donors like you support their favorite charities in smarter ways. We can help you explore the different charitable vehicles available and explain how you can complement and maximize your current giving strategy with a donor-advised fund. Join nearly a quarter million donors who choose Fidelity Charitable to make their giving simple and more effective.

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Open a Giving Account



Or call us at 1-800-262-6039(<tel:18002626039>)

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