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# The Ins and Outs of Charitable Giving

## How to maximize your charitable gifting strategy for you and your charity.

When one broaches the subject of charitable intent, whether within one's family or with an advisor, the conversation typically starts with a simple, "are you charitably inclined?" However, the answer is not always as straightforward. Over the years, we have heard a range of answers: from "absolutely, I want to give back" to "I want to— but can I afford to?" and "not right now— I have other priorities." Any version of these responses is an acceptable answer. Developing a strategy of charitable giving can be a significant undertaking that requires the individual and their advisor to analyze current and future financial goals and determine their excess capacity, or their amount of transferable assets.

For those who do engage with their advisors about charitable giving strategies, they likely will need to answer a progression of additional questions:

- **Why** do I want to give?
- **When** should I make the gift?
- **What** should I give?
- **How** do I go about making the gift?

These answers may be different for each individual and their family. For many— just as with other forms of transfer planning— identifying their reasons and strategy for charitable giving presents an opportunity to fine-tune their family's wealth priorities.

**WHY** you want to give is important to answer early in the process because it can drive the directionality of answers to the subsequent questions. Perhaps you have pre-determined charitable intent — generosity and altruism are core values of yours.

In this case, your gifts may be directed towards affinity causes such as education, the environment or the arts; or perhaps your own life circumstances serve as a catalyst for your generosity, such as medical research, veterans affairs, social justice or your alma mater.

When one's charitable aspirations are framed by strong intentions, the answers to the ensuing when/what/how questions tend to be broader and less constrained because your strategy is driven by "I want to donate, no matter what."

However, absent strong feelings for specific charitable causes, some may choose to give because of the tax and planning benefits of doing so. While this does not change the impact of your charitable giving, it enables a more creative approach to how and which assets can be transferred. If your goal is to reduce your taxable income, reduce your taxable estate, or reduce the amount of wealth your heirs will inherit, then charitable strategies can be an effective means for these ends—while also being fortuitously charitable. Finally, in some situations a family tradition may not yet exist, and often the "wealth creator generation" may wish to establish a sense of financial stewardship for future generations, in which case charitable giving may play an important role.

**WHEN** you choose to give is as much a preference as it is a strategy. While some donors enjoy seeing their gifts lead to change within their lifetime, others relish the thought of specific bequests as a part of their estate. Still others want their gifts to establish a legacy that will endure through future generations. The timing of the gift can be driven by a number of factors including a charity's specific needs at present or in the future; one's need to reduce current taxable income; reducing capital gains tax from a liquidity event; one's need to reduce estate taxes; or one's desire to provide for generational and lasting change. Ultimately, ***when*** you chose to give will be closely tied to ***how*** you give. The timing of the gift may determine which vehicles you use to make the donation and/or which vehicles provide the most efficient or desirable outcome.

**WHAT** to give is another crucial decision driven not only by *what's available* but also by *what's strategic* and *what's acceptable*. In examining one's balance sheet prior to making a donation, all assets are on the table: cash, securities, life insurance, real property, tangible property and even illiquid investments or holdings. Determining which of these makes the most sense requires consideration of:

**Strategy:** Are there tax advantages to giving away certain assets? Does the charity need immediate access to funds, and if so, which assets provide that? Even the most altruistic of donors don't want to be inefficient with their gifts either from a personal planning perspective or from the perspective of the charity receiving the donation.

**Acceptability:** Does the charity have a "gift acceptance policy?" If so, is it permissible to donate real estate, art, life insurance or other non-market assets? Regarding one's personal wealth, interest in a business or a painting that your child would like to inherit. Most importantly, you and your advisor should engage in cash flow planning to determine a charitable budget—what is an acceptable amount to give away?

**HOW** and **HOW MUCH** to give typically lie within the *why/ when/ what* parameters previously considered. Strategies for how to give generally fall into one of the two categories: outright gifts and gifts via a charitable vehicle. Outright gifts, often used to satisfy immediate charitable intent as well as income tax planning goals, can take the form of direct transfers of assets from one's personal name into the charity. Examples include:

- Gifts of cash or securities directly to charity;
- "Qualified charitable distributions" (QCDs) from one's IRA directly to a charity; and
- Gifts of art, real estate or real/ tangible property directly to a charity.

Giving via a charitable vehicle implies that the assets being donated are first transferred into the entity and then to the charity. In the use of such entities, the most ideal assets to use are those that are low basis for the potential to reduce or eliminate capital gains tax. Common forms of such strategies include:

**Trusts:** These are usually "charitable lead trusts" or "charitable remainder trusts." The key difference between the two is that in a "lead" trust the charity receives annual gifts and a non- charitable beneficiary receives the remainder; in a "remainder" trust, the charity receives the remainder after annual gifts have been made to a non-charitable beneficiary during the term of the trust.

In addition to the aforementioned capital gains tax benefits, these types of trusts provide the donor various timing options with respect to when the assets are received by the charity or the non-charitable beneficiaries.

**Foundations:** By creating either a private foundation or even a public, 501(c)3 foundation, you can provide not only a powerful means of charitable wealth transfer but also potentially establish a significant and lasting charitable legacy. While this strategy may offer a high degree of personal reward and satisfaction, it can also be an expensive strategy to pursue as usually the foundation will require ongoing administrative, legal and even operational expenses.

**Donor Advised Fund (DAF):** DAFs represent a space between an outright gift and an entity transfer as a DAF provides a one- time, present-year tax deduction while also providing an opportunity to spread the act of giving over a number of years.

**Life Insurance:** This is potentially an excellent means of creating a significant charitable impact while amortizing the "cost" of such a donation over the term of a policy. Naming a charity as a beneficiary on a life insurance policy can be an effective means of re-purposing a policy that is no longer needed, provided that the premium payments do not represent a financial burden to the donor. A policy can also be purchased initially to benefit a charity and can potentially provide a leveraged return to the charity depending on when the death benefit is paid.

Proper charitable planning —answers to the why, when, what, and how questions—provides a unique opportunity to "do good while doing well," in turn enabling donors to strike a balance between charitable intent, tax benefits and legacy goals. The iterative process of exploring the purpose of gifting, examining available options and refining the donation strategy not only maximizes the benefits to the donor, but also can significantly augment the impact on the charity.

It all starts with one question: "are you charitably inclined?" If the answer is "yes" no matter the reason, reach out to your advisor to craft a plan that identifies, achieves and fulfills those charitable goals.

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