Charitable Gift Options Allow Tailored Approach

Just as every investor needs a tailored financial plan to meet his or her objectives, everyone who wants to support favorite charities and causes needs customized giving. While supporting those causes will be the primary motivator for most donors, other factors invariably affect giving decisions, including tax implications, family involvement, desire to produce life-time income, desire to benefit charity now/in the future, expected levels of engagement and more. As a result, developing the right approach for a specific donor will require an understanding of their options.

Following are a variety of the ways donors can support charitable causes, and some insights into the pros and cons of each approach.

NOT AN EITHER-OR SCENARIO

One thing that's important to understand is that donors will not necessarily choose just one of the charitable options, but will, instead, likely combine two or more of those options into the right approach.

The Donor-Advised Fund, in particular, offers opportunities to combine tactics. For example, a Donor-Advised Fund

could be the charitable beneficiary of a charitable remainder trust. A donor could establish the trust, benefit from the income during his or her lifetime, and direct that the remaining assets fund the Donor-Advised Fund upon his or her death.

Then, DAF distributions could directed by heirs or by instructions determined by the original donor.

TYPES OF CHARITABLE GIVING

At first glance, the phrase "charitable giving" can seem pretty straightforward. If you dig deeper, though, you quickly learn that donors have a variety of ways to give. Following are the most common.

Cash. When it comes to charitable giving, many people think first of cash gifts. This kind of giving is simple and straightforward: The donor writes a check and gets a deduction equal to the given amount. However, cash is not always the most tax-advantageous way to give; in fact, it has been described as the "most expensive way to give." Most cash is a result of an after tax event (i.e. W-2 or 1099 income). It also requires donors to keep detailed records for tax purposes.

Complex Assets. Tangible and intangible items owned by a donor – including equity shares, business interests, real estate, art, vehicles, jewelry, etc. – can be donated directly to charitable organizations with considerable tax benefit. The biggest appeal? By donating an asset rather than selling it and donating the proceeds, the donor can avoid capital gains taxes.

Pooled Income Fund. Pooled income funds allow a donor to "pool" together stocks and cash into an irrevocable fund created by a nonprofit, earning dividends from the fund with the understanding that, upon the death of the donor, remaining assets in the fund will be distributed as a charitable donation. With this approach, donors typically qualify for a projected tax benefit. Additional benefits include tax avoidance, life-time income, reduced administration costs and establishment costs.

Private Foundation. Donors intending to make considerable gifts to nonprofits might want to create a private foundation. This option presents opportunities for ongoing control of charitable giving and can permit high levels of family involvement in the giving process, but it also can be a complex approach that creates a lot of ongoing responsibility and requirements.

Charitable Trusts. Charitable trusts are typically long-term giving vehicles that benefit a donor and his or her family as well as charitable causes. Donors who want to put money into charitable trusts have two basic options:

- A Charitable Remainder Trust (CRT) typically pays income to the donor(s)/income beneficiary(s) for his and her lifetimes, and upon the last income beneficiary to die, remaining assets in the trust are paid to the charities named in the trust. It's possible to name heirs as successor income beneficiaries, but special planning must take place.
- A Charitable Lead Trust (CLT) pays income (the "lead" interest) to the named charities, and at the end of the term of the trust the assets come back to the donor or his/her heirs, depending on trust type.

The benefits of charitable trusts vary, and professionals, in legal and tax, must be engaged.

Donor Advised Funds (DAFs). With a Donor Advised Fund (DAF) a donor makes a gift to a sponsoring charity (Renaissance Charitable Foundation for example), which then establishes a fund on the donor's behalf. The donor(s) can even name their fund (i.e. The Twain Family Giving Fund). The funds are invested, and DAF growth is used to support charitable organizations through grants. The donor gets an immediate tax benefit for the contribution and can avoid capital gains taxes on appreciated assets that are contributed to their fund. Once the fund is established, a donor can contribute to it as frequently as desired and receive tax benefits from those ongoing contributions. Although the donor no longer owns the assets contributed to the DAF, if desired he or she can guide how the assets are invested and recommend how proceeds are granted to nonprofit organizations.