COURSE CORRECTION: 3 IMPACT INVESTING TRENDS FOR MESSY TIMES

RenPSG

Let's face it. The past few months have turned everything upside-down. With headlines focused on a global pandemic, racial issues, roller-coaster markets and political posturing, everything seems to be in a state of flux and tumult.

Giving is no exception. While these challenging times are prompting people to support charities and causes, marketplace changes, shifts in donor motivations, interest rates drops and new federal laws are forcing generous investors to rethink the way they share the wealth.

In this One-Minute White Paper, we'll look at three trends grabbing donor interest. Each has distinct characteristics that make it more favorable for some donors than others. Deciding which option is best for each individual will require a hard look at his or her motivations, objectives and long-term vision.

> **"The past few months have turned everything upside-down, forcing generous investors to rethink the way they share the wealth with favorite causes."**

Trend One: The Rise of the Grantor Charitable Lead Trust

In one way, the force fueling the rise in the popularity of the Grantor Charitable Lead Trust (CLT) is simple: The COVID-19 pandemic not only has inspired people to give to help those most affected by the virus outbreak, but it's also driven interest rates to new lows. That makes CLTs a powerful option: These irrevocable trusts offer a vehicle for donors who want to support favorite causes and who also appreciate an immediate income tax and or gift tax charitable deduction. And the best news for today's donor? These tax benefits are enhanced when interest rates are low.

Donors will appreciate this charitable option for a number of reasons. First, in the year of the gift, the donor gets to take a single deduction that represents the charitable distributions required over the entire term of the trust (an option often exercised in a year when the donor has a significant taxable income). At the same time, the donor gets to deliver both an immediate and ongoing impact for society since the trust makes distributions to the donor's preferred charities each year. These trusts also serve donors who prefer to maintain control by allowing charitable payments to be made to a Donor-Advised Fund (DAF) in the donor family's name. This allows annual contributions to grow tax-free while giving the donor, the family and future generations the ability to manage their giving beyond the term of the CLT.

At the same time, CLTs appeal to those who want to preserve wealth for the future, because, at the end of the trust's designated term, the remaining trust assets revert to the donor or to another non-charitable beneficiary, often his or her heirs. This all add ups to a formula more and more clients find attractive.

The Trend	What's Driving It	How it Works	The Benefits
Rise of the CLT*	Low interest rates, desire for immediate social impact, tax impact	Creates a trust that allows for charitable distributions for the life of the trust, with assets reverting to donor or heirs at end of defined term.	• Immediate social impact • Control over charitable uses • Current income tax deduction • Reduced wealth transfer tax
*CLT: Charitable Lead Trust			

Trend Two: Capitalizing on the Demise of the Stretch IRA

At initial glance, this trend also could seem to be driven by a single factor: The federal SECURE Act that went into effect on Jan. 1, 2020, and put a 10-year liquidation rule on stretch IRAs has stymied investors who were looking to stretch the passing of IRA assets to heirs over his or her lifetime.

As a result, if an investor has funds in a stretch IRA or has been thinking about creating one, he or she needs alternatives. And that's where Charitable Remainder Trusts (CRTs) come in.

Who's right for this trend? In a way, it's those donors who like to have their cake and eat it, too.

Donors like CRTs as stretch IRA replacements because the trusts let them continue to stretch out the impact of passing on wealth but also allow them to do some good with their wealth in the future. Donors who like control choose it because they can decide up-front what charity or charities will benefits from the trusts, and they give that charity and a future long-term source of income.

And then, when the designated term of the CRT is up, the assets go to the donor's designated charities … meaning the original donor not only got to do some good, but also has had the opportunity to demonstrate to the next generation the importance of charitable giving and supplied that generation with the means to continue the legacy.

Perhaps the most compelling reason for choosing CRTs as a replacement for a stretch IRA is this: Because of their charitable aspect, moving funds from a stretch IRA to a CRT at death will not create a taxable event … something every investor can appreciate.

The Trend	What's Driving It	How it Works	The Benefits
Stretch IRA conversion to CRT*	Elimination of Stretch IRA	Allows stretch IRA funds to be repositioned to deliver future social impact and income for heirs	• Future social impact • Control over charitable uses • Ability to liquidate stretch IRA at death without taxable event • Reduced wealth transfer tax • Long-term preservation of principle • Steady stream of income for heirs
*CRT: Charitable Remainder Trust			

Trend Three: Directing Impact with Donor-Advised Funds

While Charitable Remainder Trusts (CRTs) and Charitable Lead Trusts (CLTs) offer great opportunities for lock-and-load long-term social-impact investing, some investors want more ongoing control over their impact. After all, a CLT set up a year ago, for example, wouldn't be able to make contributions in response to the pandemic because it would be locked into some other cause.

Donor-Advised Funds (DAFs) give investors the flexibility to recommend how a fund's proceeds are distributed on an ongoing basis. This is great for donor-investors who want to engage in more hands-on philanthropy, and it gives them a great opportunity to teach their children about the importance of philanthropic giving: They can perpetuate a family legacy of giving by engaging their heirs in making recommendations about how charitable proceeds are distributed.

While most investors who use DAFs are more motivated by a desire to do good than to trim their taxes, those looking for a tax break will also appreciate DAFs. Donors are given an immediate income tax charitable deduction for the funds put into the DAF, and appreciated assets are not taxed as capital gains.

The Trend	What's Driving It	How it Works	The Benefits
Create a DAF*	Shift in donors' emphasis from tax avoidance to making a difference	Gives assets to a charity that invests them and makes grants as recommended by the donor.	• Voice in how funds are invested • Ongoing voice in how funds are charitably distributed • Immediate tax benefit • Avoidance of capital gains • Opportunity to engage family in charitable giving • Opportunity for anonymous giving
*DAF: Donor-Advised Fund			

An opportunity for discussion

As with all trends in investing and philanthropy, choosing the one that works best for an individual investor requires a deep understanding of that investor's motivations and long-term objectives. As such, the emergence of these trends give investors and advisors a great opportunity to review motivations and long-term objectives and make sure they are aligned with the investor's portfolio. To begin this conversation, ask investors about the causes and charities they support, their long-term goals for passing wealth to their heirs, and how much they are concerned about the tax impact of their choices.

> **These trends give investors and advisors an opportunity to make sure the portfolio is aligned with motivations and long-term objectives.**

Interested in Learning More?

If you're interested in learning more about financial strategies for social impact giving, contact us today