



**INTELLIGENT
PHILANTHROPY:**

**ACCESSIBLE
STRATEGIES**

FOR

**CHARITABLE
GIVING**

Intelligent Philanthropy: Accessible Strategies for Charitable Giving

As the holiday season approaches, many of our clients' families are thinking about the charities and causes they want to support financially. Here at LCR Wealth, we applaud philanthropic activities and hope to assist our clients with their charitable donations as best we can. To help guide these families, LCR Wealth created this white paper with information about the various methods and strategies for making efficient charitable donations.

The first step in the process is to determine the goal of your philanthropy. This does not mean that you must determine the causes you want to support. Instead, it means that you need to reflect on, and make decisions about, the question, **What is the true purpose of my philanthropy?**

Some people use philanthropic activities to create a long-lasting **legacy**. Highly successful individuals and families often aim to make an enduring impact, and have their contributions be remembered, through a **private foundation** that lives far longer than any human can. They typically name these private foundations after themselves, so they can create a tradition of giving back through the family's successive generations. To create a private foundation, you must have a level of wealth substantial enough to rationalize the costs associated with the creation and maintenance of a private foundation. Because of the complex nature of this charitable donation vehicle, and the associated financial hurdles, we won't dive into the details in this paper. Instead, we'll focus on more accessible strategies for giving that almost anyone can benefit from.

If you have an interest in establishing a private foundation, reach out to your wealth/tax advisors to discuss the process as well as the associated pros and cons.

What Are Your Goals?

Many people have the simple goal of using excess wealth to **financially support a cause** or specific charity they believe in. Most people do not have the resources or desire to establish a private foundation and are not seeking the niche advantages of the charitable trust options (which will be explained later). The majority of people are likely to use one of two vehicles to give back: a **direct donation** to a charitable organization or a contribution to a donor-advised fund.



A direct donation is very straightforward: the individual donates an asset or assets directly to a charitable organization that they would like to support. Most people have done this in one way or another. For example, almost everyone in the United States has probably dropped a few dollars in the well-known red Salvation Army donation bucket, which is usually attended by a friendly

volunteer ringing a bell and spreading holiday cheer. The Salvation Army bucket is an example of a direct cash donation.

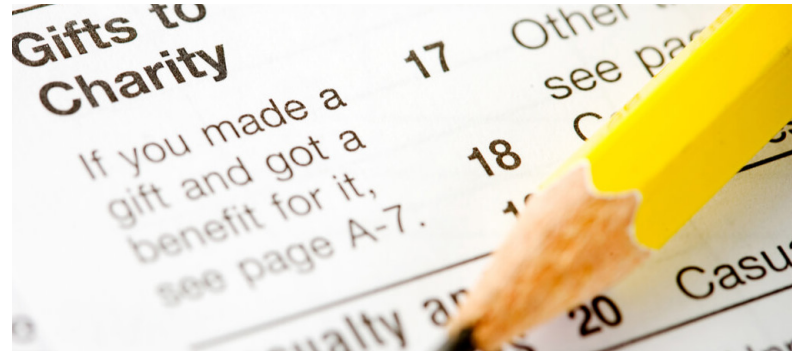
You can also make direct donations of assets other than cash. A commonly used asset for donation by high-net-worth individuals/families is **appreciated securities**. Instead of selling the appreciated securities, paying taxes on the gains, and donating the cash, you can instead donate the securities in kind—that is, themselves, instead of money. Gains on securities are exempt from taxes when it is the charitable organization that realizes those gains, whereas you as a private individual would be responsible for the taxes. There are many more assets that can be donated, but for simplicity we'll discuss donations of cash and appreciated securities, since these are the most common.

Assuming that moral goodness is the primary driver of the decision to donate, what other benefits are there to making direct donations of cash or other assets?

What Are the Financial Benefits?

The main **financial benefit** of any charitable donation is the prospect of a **tax deduction**. Direct cash donations are tax deductible if they are given to a qualified 501(c)3 nonprofit organization. A 501(c)3 nonprofit organization is considered “qualified” if it is “operating,” meaning that it performs an actual charitable activity. Examples are soup kitchens or homeless shelters. In contrast, a “nonoperating” nonprofit organization issues grants, which are sums of money given for a specific purpose. Such a non operating nonprofit is considered “nonqualified.” An example of a nonoperating

nonprofit organization would be the Bill & Melinda Gates Foundation. Charitable donations made to a qualified 501(c)3 nonprofit organization are **100%**



tax deductible, up to 60% of your adjusted gross income (AGI) for the year. If your charitable donation is more than 60% of your AGI, you can carry the excess amount forward for up to five years. In other words, deductions that you do not use in the year you make the donation, because you have already reached the 60% of AGI limit, can be saved and used to reduce taxable income in future years, for up to five years after the year you make the donation. In contrast, donations made to any nonqualified organization, even if it is a 501(c)3 nonprofit, may not be fully tax deductible. If you are unsure whether an organization is qualified you can use this [IRS Tax Exempt Organization Search Tool to check before donating.](#)

If you are considering donating to a non operating charitable organization, whether cash, securities, or any other type of asset, you should discuss this decision with a tax professional so you can fully understand the tax implications.

Donations of appreciated securities are **100% tax deductible** at fair market value at the time of the donation, with the maximum donation at **up to 30% of your AGI for the year.** Donations in excess of the 30% limit can be carried forward for future use, for up to five years.



Why Use a Donor-Advised Fund?

If you are certain that you want to use your excess wealth to directly support a cause, but you are not sure what cause you want to support, a donor-advised fund is a good option. **Donor-advised funds** are essentially charitable investment accounts in which control over the assets are given to a third-party manager. The donor “advises” the manager as to how and when they would like the assets to be donated to an operating nonprofit organization. Donor-advised funds are treated as charitable organizations, so contributions of cash or securities are treated the same as they would be for a direct donation to an operating nonprofit



organization. This means the tax advantages are realized in the year of the contributions to the donor-advised fund, not the year that the donor-advised fund donates the contributions to an operating charity.

This strategy can be used tactically for those who are close to entering a new, higher tax bracket and want to lower their taxable income. By contributing to a donor-advised fund you can build a “charitable nest egg” that can be used later when you have identified charities or causes that you wish to support.

Direct donations and donor-advised funds are appropriate for just about anyone with the goal of using excess wealth to support specific causes or organizations, but the most beneficial asset to donate varies based on the personal income tax implications.

As mentioned earlier, some trust structures are specifically designed to meet goals that combine charitable giving and passing wealth to future generations of the family. We’ll review the two most common charitable trust structures and the goals that they aim to fulfill.

Combining Charitable Donations with Creating Generational Wealth

Some individuals and families have the goal of **living off their wealth, then donating the bulk of their wealth**. The best vehicle for this goal is the **charitable remainder trust (CRT)**. This vehicle structure is a tax-exempt, irrevocable trust. Capital contributed to the trust is invested, and the trust is mandated to distribute 5% of the trust value annually to a named beneficiary for a specified period. When the specified



period ends, the remainder left in the trust is donated to one or more charitable organizations, according to the wishes of the grantor (that is, you) as specified when the trust is established. The grantor of the trust gets a taxable deduction equal to the value of the remainder at the time it is donated to charity.

Another common trust structure is **the charitable lead trust (CLT)**. The goal of this structure is to **make regular charitable donations, then pass wealth to a beneficiary** while avoiding probate and/or estate taxes. This structure acts almost in opposition to the CRT. The trust distributes income annually to the charity or charities specified by the grantor when the trust is established, for a specified period. Once the period ends, the remainder is passed to the named beneficiary, free of probate court and estate taxes. The grantor can take a taxable deduction in the year that the trust is established equal to the present value of the future dis-

tributions that will be donated from the trust to the charities. It is important to note that unlike the CRT, with a CLT the donor is liable for taxes on any realized investment gains in the years while the trust is operating.

Both of these trust structures meet specific goals extremely effectively. If you desire to start

creating an estate plan, with charitable donations being a part of that plan, you should evaluate a CRT or CLT for the benefits they can provide.

Summary

You can donate cash, appreciated securities, or other assets; and you can do so through a **direct donation**, a **donor-advised fund**, or a **charitable trust**. If you have substantial assets, you can also consider creating a private foundation. In any case, establishing the true intent or goal of your philanthropic activities is essential to determining the appropriate vehicle through which to donate. The type of asset(s) that is most beneficial for your donation depends on the amount you expect to donate, your personal asset allocation/financial situation, your expected income tax, and your long-term financial plan.

We encourage everyone to discuss these decisions, and the various options for charitable giving, with their wealth and tax advisors. By doing so, you can make donations in the most effective and efficient ways to meet your personal goals.



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