Feeling Philanthropic? A Charitable Planning Primer

Do you want to have a major impact on a charity or cause that means a great deal to you? Do you want to do well financially by doing good for others in need? If so, you've got plenty of company. One top financial issue we hear about from today's individuals and families is charitable giving—how to do it well, and how to do it better.

We all know the best results usually come from the best plans. That also holds true when it comes to philanthropy. *Charitable planning* is the process of making a significant charitable gift that is part of a broader financial or estate plan.

Smart giving is usually best accomplished as part of your overall financial situation. By considering the various assets you have, you can plot out a path to results that are very worthwhile to all parties involved—including you, your family, your business (if you own one) and the charitable organization. To get those results, charitable planning is often coordinated with estate or income tax planning.

There are many ways to accomplish charitable giving. Some examples include:

1. **Will bequest.** Through a will bequest, you leave a charitable gift in your will, and the gift does not go to the charity until the will is probated. A will bequest meets the personal needs of many people. Bequests are convenient because the assets are still available to you during your lifetime. Your estate is also able to take an estate tax deduction for the value of the charitable bequest.
2. **Private foundation.** This is a private, nonprofit organization that receives most of its contributions from a single wealthy individual or family (usually very wealthy). With a private foundation, a minimum amount of the foundation's assets must be distributed annually.
3. **Donor-advised fund (DAF).** Think of DAFs as charities that invest in pooled investment vehicles similar to mutual funds. What you donate earns a federal income tax deduction for the entire gift, because the DAF is technically a nonprofit. You can then, at your own pace, pinpoint certain charities and decide how much to give to each one.
4. **Charitable gift of life insurance.** This approach to planned giving uses a traditional financial tool —life insurance—in an innovative way. As the donor, you designate a charity as the owner of your life insurance policy. Generally, you can take a tax deduction for the premiums and create a significant charitable gift.
5. Charitable trust. For many people with wealth and strong charitable intent, charitable trusts are extremely attractive planned gifts. With a charitable remainder trust, the benefit to charity is delayed because income from the trust is reserved for you (as the donor) or some other person you specify. As part of the gift, the trust provides income for you for your lifetime or for a set number of years. Once the trust is terminated, one or more charities chosen by you will receive the assets that were held in the trust. With another type of trust, a charitable lead trust, you transfer assets to the trust for life (or a specific number of years), and the trust's income is paid to your charity of choice. When the trust expires, the assets in the trust are either returned to you (or your estate) or passed on to heirs you designate.

6. **Pooled income fund.** A pooled income fund is akin to a mutual fund. The major difference is that the pooled fund is specifically for donors who give to only one charity. Donors contribute securities, cash or other acceptable assets to the pooled income fund, and the charity manages the assets in the fund. An income tax deduction is received for the actuarially determined value of the gift passing on to charity. Pooled income funds are used to help eliminate capital gains taxes for gifts of appreciated assets. Estate tax liability can also be reduced.

Charity first

While charitable gifts can produce substantial benefits for donors, it is very important to remember that *charity comes first* in the equation. If tax mitigation is your only concern or your primary concern, other wealth management strategies separate from planned giving are likely to give you better results.

The upshot: If you don't sincerely care about meaningfully supporting any charities or causes, charitable gifts are probably not for you. If certain charities and causes are dear to you, however, philanthropy can be a very effective way for you to do something truly worthwhile for others while doing well for yourself financially.

The right resources to tap

Charitable planning is often facilitated by an array of professionals, including many working within charitable organizations. This is mainly due to practicality: There can be many moving parts to coordinating a giving effort because of the multiple parties involved—donors, charitable organizations—and the multiple goals that possibly are being pursued (charitable impact, tax mitigation, estate tax reduction, family legacy development and so on).

Taking a do-it-yourself approach to charitable planning and giving is possible—but the probability that you'll miss something important that could impact your ultimate results can be very, very high.

The good news is that there are many high-caliber wealth managers, philanthropic advisors, private-client lawyers and accountants who can be very useful in helping you evaluate whether charitable gifts make sense for you—and which options may be ideal for your situation. The expertise of these professionals is especially valuable in helping you implement your giving strategy.