
Making the Most of Charitable Giving: A Strategic Approach to Philanthropy

Charitable giving may exceed \$50 trillion in combined lifetime giving and charitable bequests in the next fifty years. Yet a large proportion of that total is being deployed through an ad-hoc approach to giving often referred to as “checkbook philanthropy.” By designing a clearly defined charitable planning strategy, individuals and charitable organizations alike can maximize the financial and personal benefits of charitable giving.

Why Have a Plan?

Charitable planning employs techniques designed to maximize the dollar amount of a gift given to a charity, while also benefiting the donor – in other words, it creates a “win-win” situation. For example, a gift of appreciated securities (securities whose market value has risen since the time of purchase) saves the donor on capital gains taxes, which, in turn, leaves more assets to the charity. Other benefits of charitable planning include providing a legacy, giving in a manner that aligns with the donor’s personal values, minimizing estate taxes, and influencing how one’s wealth is utilized after death.

Why, then, don’t more individuals use a planned approach to giving? For many, it can seem like a complex and time-consuming process. Some fear that by giving to a charity through an estate plan, they’ll be leaving less to their heirs. And many individuals resist what they fear will be a loss of control over their assets. But the truth is that a charitable planning strategy can be designed to meet the needs and the comfort levels of virtually any individual.

What Are My Options?

To get started, ask yourself some basic questions. What are my values? What kind of legacy do I want to leave? How much income do I need? How much do I want to be able to leave to my heirs? What causes are most important to me? Exploring these and other issues will put you on the right track to align your financial resources with your values and form the basis of your charitable planning strategy.

Once you are ready to put your assets to work, you have many options for implementation – from bequests made through wills, to trusts, to donor advised funds and community foundations. Review the pros and cons of some of these structures with a trusted financial advisor to determine which is right for you given your philanthropic goals and personal financial situation.

Below is a high-level overview of some of the more popular approaches to charitable giving:

- **Writing a Check:** Perhaps the simplest direct giving approach, a cash gift is easy to implement and is immediately tax-deductible for the donor. Some disadvantages include the fact that it requires the donor to track receipts each time a gift is made and that it does not create a philanthropic legacy.
 - **Gifting Appreciated Securities:** When a donor contributes appreciated securities to a charity, the donor avoids paying capital gains on those securities, leaving more of the assets available to the charity. While offering advantages over simply writing a check, this approach also can be *ad hoc* in its implementation and does not create a legacy of giving.
 - **Charitable Remainder Trusts:** A popular estate planning tool, the “CRT” is a trust structure with two beneficiaries: the income beneficiary (the donor) and the remainder beneficiary (typically a charity). During his or her lifetime, the donor receives an income stream from the trust and upon death the charity receives the principal – also exempt from taxes. Variations on the CRT include the charitable remainder unitrust (“CRUT”), in which the donor’s income stream fluctuates based on the market value of the assets in the trust; and the charitable remainder annuity trust (“CRAT”), which pays out a fixed amount during the donor’s lifetime.
 - **Charitable remainder trusts** can minimize both income and wealth transfer taxes for the donor, and they are relatively simple to set up and administer. When funded with appreciated stock, they can also diversify a donor’s portfolio while avoiding capital gains taxes. However, because a charity is designated as the remainder beneficiary, the CRT does bypass children or other heirs in the wealth transfer process.
 - **Charitable Lead Trusts:** The charitable lead trust (“CLT”) is a variation that names a charity as the income beneficiary during the donor’s lifetime, with the assets distributed to non-charitable beneficiaries (typically the donor’s heirs)
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upon death. While this approach offers tax benefits for the donor and charity alike and does provide for assets to be distributed to heirs, it provides only a temporary philanthropic gift. And although both CRTs and CLTs are not overly cumbersome or costly to establish, they do require an attorney to set up.

- Private Foundations: A popular choice when objectives include a legacy of giving and/or the perpetuation of the family name, private foundations offer flexibility, tax efficiency, and control for the individuals or families who establish them. Private foundations do entail a significant amount of time and expense to establish, however, and as such are typically suited to individuals who are able to make contributions in excess of \$1-\$2 million.

In some cases, the power of these solutions lies in their combination. For instance, a family foundation can be set up to be the remainder beneficiary of a CRT. Alternatively, an individual can use a portion of his or her income from a CRT to purchase a life insurance policy within a trust structure (known as a wealth replacement trust.) If heirs are named as beneficiaries through the life insurance policy, the donor is able to both give to charity and preserve a portion of his or her wealth for the next generation.

As the old adage goes, “Failing to plan is planning to fail.” And while any act of charitable giving confers benefits to both donors and charities, to truly maximize those benefits, you should consider developing a thoughtful charitable planning strategy.

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