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Estate Planning for Charitable Giving

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When considering a large charitable gift, individual donors have many options at their disposal. Donor advised funds, charitable trusts and private family foundations are three commonly used charitable planning vehicles. Below is a brief summary of these three vehicles, as well as the advantages and disadvantages of each. By utilizing the approach that best suits their needs, donors can use philanthropy as a tool to complete a holistic estate, financial and tax plan.

Donor-Advised Funds

A donor advised fund at a local community foundation manages assets much like a traditional investment account and distributes the assets to Code 501(c)(3) public charities as advised by the donor. The manager of the donor advised fund, like any financial manager, will charge a fee based on a percentage of the assets under the manager's care (usually 2.5% to 4%), and will require a minimum initial contribution. The advantages of a donor advised fund are that the donor receives a charitable deduction on his or her income tax return at the time of the contribution; the donor may advise the manager as to how the assets should be distributed in the future; and the donor avoids the administrative expenses, attendant to other charitable planning vehicles. However, as the name suggests, donors may only *advise* the manager as to which charities receive a distribution and the amount thereof. In fact (while unlikely), the manager is legally entitled to ignore the donor's advice entirely.

Charitable Trusts

Charitable trusts are used to manage charitable giving over time. A charitable remainder trust (CRT) allows a donor to make a large one-time gift to charity, utilize the charitable deduction in the present and retain the income from the donative property for a period of years. A donor may either receive the income payments or designate someone else to receive them. At the end of the income period, the charity selected by the donor receives the balance of the trust assets. The CRT is also an effective vehicle for donors who wish to make a charitable gift upon their death while at the same time providing an income stream for their heirs after they are gone. However, unlike donor advised funds and private foundations, CRTs do not afford donors the ability to readily influence how trust

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assets are distributed after the trust is formed.

A charitable lead trust (CLT) is the opposite of a CRT. A CLT enables the donor to receive a charitable deduction for contributed assets in the present and provides income to the selected charity for a period of years. At the end of the income period, the donor (or a beneficiary of the donor's choosing) receives the balance of the trust assets. As with CRTs, CLTs do not afford donors the ability to readily influence how trust assets are distributed after the trust is formed.

Private Family Foundations

Finally, private family foundations enable a donor to make a substantial gift and stay involved with how the gift is distributed. A private family foundation can operate as a trust or a corporation, with the donor and donor's family members acting as the Trustees or the Board of Directors in charge of making the charitable distributions. A private family foundation offers the donor the opportunity to leave behind a legacy that provides for the donor's selected charities for generations to come, as well as the opportunity for the donor's family to actively participate. Because the private family foundation is not under the umbrella of a bank or a community foundation, the donor is free to select the types of assets contributed and the organizations to which the assets are distributed. However, this freedom and control may create potentially significant administrative and startup expenses as private family foundations are subject to complex regulations and accounting requirements. Depending on its size, a private family foundation may require a team of financial advisors and a full time staff.

By integrating your estate, financial and tax strategies, you can create a holistic plan which best utilizes the planning strategies available to you. If you would like to discuss any of these planning techniques, or any other aspect of your overall financial, tax and estate planning strategy, please contact one of Reinhart's Trusts & Estates attorneys.

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