

How to Give to Charity A Donor's View

By Richard Livingston

The Basics

- *Most of us* give because we relate to a charity's mission, its people, and its results—with tax issues an important but secondary factor.
- *It is easy to give* money to any charity, at any time, in any amount, conveniently and tax-efficiently. There are two simple ways to do it— the outright gift and the bequest.
- *For some donors* with unique wealth, income, and estate issues, who are comfortable with a higher level of complexity and who may seek personal financial gain from their giving, there are more-complex giving methods that may be useful.

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The Simple Ways of Giving

- ***For those who want to give money now to be used now***, the ***outright gift*** is hard to beat. Just write a check, transfer some stock, or drop off some used clothing. Then record your gift on your tax return (if you itemize) to get your tax deduction. This is by far the most popular way to give and the most coveted way for a nonprofit to receive. It works well for any size gift for any size organization. The outright gift will provide the maximum current tax deduction available from any giving method.
- ***For those who want to give at the end of their life, for use at the end of their life***, the ***bequest*** is popular and effective. Simply add a couple of sentences to your ***will***, or add the name of your nonprofit to the beneficiary form of your ***IRA*** or your ***insurance policy***. The key advantage of the bequest is that it allows you to retain access to your assets throughout your lifetime. Another advantage is that you can change the bequest in any way you wish, at any time. A bequest can also help donors avoid regular estate taxes. Income taxes on funds remaining in an IRA can be avoided if those funds are given as a bequest to a nonprofit charity.

Although bequests are not tax-deductible during your lifetime, they offer a number of important advantages, including simplicity, economy, revocability, changeability, retained access to the funds, and confidentiality. For many donors, these advantages will greatly override the absence of a current income tax deduction.

We suggest you explore these simple and convenient options first. If they don't meet your objectives, take a closer look at the more-complex means of giving.

The Complex Ways of Giving

- ***For those who seek financial gain from their charitable giving***, there are a variety of more-complex methods that may be useful, including ***contracts, trusts, and insurance instruments***. Each instrument is available with many variations. The Charitable Gift Annuity (CGA) and the Charitable Remainder Trust (CRT) are the two most common options. These arrangements typically require an immediate transfer of assets to a nonprofit or a financial institution in exchange for a periodic financial payout. CGA minimums generally begin at \$10,000 and are typically marketed to those 65 and older. CRTs are sometimes established for as little as \$100,000 or less, but many financial institutions will recommend a minimum of \$250,000 to \$400,000. With a few exceptions, gift trusts are only appropriate for very large gifts.
- ***For those who wish to retain administrative control of their gift assets***, establish a legacy that lasts in perpetuity, engage family members in their philanthropy, and distribute assets for charitable use at a minimum rate of 5 percent of foundation assets per year, the ***family foundation*** may be the best option. Many donors will find that a ***donor advised fund*** with a Community Foundation or other large foundation will give them most of the features they seek without the expense and administrative burden of managing a family foundation.

If you are interested in learning more about these complex giving methods, we urge you to go directly to your personal lawyer, accountant, and financial advisor to get a comprehensive analysis of how these devices might fit into your overall financial plan as compared with the outright gift or the bequest

Main Characteristics of the Various Giving Methods

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	Money given by donor	Money usable by nonprofit	Donor retains assets	Donor receives payments	% of gift received by nonprofit	Availability of tax deductions			Admin. complexity
						Income	Cap. gains	Estate	
Family foundations	Now	Ongoing	No	No	100%	Yes	Yes	Yes	Very high
Contracts and trusts *	Now	End of life	No	Yes	50% (CGA)	Partial	Partial	Yes	High
Bequests	End of life	End of life	Yes	No	100%	Yes, for IRA	Yes, for IRA	Yes	None
Outright gifts	Now	Now	No	No	100%	Yes	Yes	Yes	None

*Typical Charitable Gift Annuity (CGA) characteristics are shown.

Clarifications Regarding Taxes and Investments

- **The charitable tax deduction** works as follows: Assume you give a charity \$1,000 on November 1st. The next April, when you report the gift on your tax return, you will find that your deduction reduces the amount of tax due to the IRS by \$250 or so (depending on your tax bracket). Thus, you were able to give your charity \$1,000 at a net cost to you of \$750. A good deal for you and a good deal for your nonprofit, but not a way for you to “make money.” After all, you did pay the \$750.

Giving appreciated assets can produce an **additional** tax deduction by avoiding **capital gains tax**.

Beginning in 2006, there will be no **estate tax** on estates of less than \$2 million for an individual or \$4 million for a couple (with an appropriate estate plan). These minimums rise to \$3.5 million and \$7 million in 2009, and the estate tax is scheduled to be phased out in 2010. The estate tax is currently scheduled to return in 2011, with the probability that congress will further modify these rates before that time. Clearly, estate taxes are only an issue for a small percentage of the population. But if you do foresee estate tax obligations and have a charitable intent, the bequest can be a simple and effective way to avoid this tax.

- Although the term “investment” is rarely used in the marketing of life income gifts, the implication is there. We suggest that if you are considering a life income gift (contract or trust), that you, as a prudent investor, apply the same degree of analysis as you would for any other investment option. This would include a full analysis of your overall financial situation, including consideration of comparative risk, the long-term impact of inflation on fixed-income investments, and an in-depth assessment of your investment alternatives.

The Marketing of Charitable Giving Methods

The more-complex giving methods are often selectively marketed with an emphasis on tax savings and increased income, bypassing the baseline benefits of the outright gift and the bequest. Advantages of the more-complex methods are typically emphasized, while the disadvantages are not. The merits of the simpler alternatives are rarely mentioned. This can leave donors with a limited understanding of the full ramifications of the complex instruments, including their comparative risks, the financial strength of the issuing institution, the impact of inflation on long-term fixed payments, and their potential need to make changes.

A wise donor recognizes the overlying marketing theme for life-income gifts: That a person will be improved financially by giving their assets to a nonprofit – in conjunction with a bank, trust company, or other financial organization – in exchange for some form of financial benefit. *This may or may not be the case.* We urge diligence in determining whether one or more of these more-complex giving methods will truly be the best option for your specific situation.

What Next?

We suggest two things. First, consider the full range of giving method options, using the outright gift and the bequest as your baseline. Second, ask yourself and your advisors a few basic questions. With these answers in mind, your choice of appropriate giving method will probably be quite straightforward.

Questions for Donors to Ask Themselves

- What are my values and objectives? What causes do I feel strongly about? What do I want to accomplish with my giving? What giving methods can best help me achieve my charitable goals?
- When do I want to give money—now or at the end of my life?
- When do I want my nonprofit to be able to spend the money that I give—now or at the end of my life?
- How engaged in the process do I want to be? Am I comfortable with more paperwork, more tax forms, and more in-depth consultations with lawyers, accountants, financial advisors, and other advisors? Or would I prefer to just give money to a cause that I believe in (now or at my death) as simply and economically as I can?
- Do I seek to gain financial advantage by giving money away? Does this make sense to me? Do I want to pursue this possibility? Do I look to my nonprofit for advantageous financial products?
- Is there a true net advantage for me (and my nonprofit) in giving through one of the more-complex methods as compared with the outright gift and the bequest?

Questions for Donors to Ask Nonprofits and Their Own Advisors (Lawyers, Accountants, and Financial Advisors)

- A question for the executive director or the chief financial officer of your favored nonprofit: Would you prefer to receive a \$5,000 outright gift or a \$15,000 charitable gift annuity? (That should spark a very instructive conversation!)
- What net advantage is there for me in giving through one of the more-complex methods, as compared with the outright gift and the bequest? (“Net” means that everyone’s overhead costs are included, comparative risks are addressed, and alternative investments are considered.)
- From my life income gift of \$10,000, \$100,000, or \$1,000,000, how much will eventually become available for the nonprofit to spend on programs, when will it become available, and what will its inflation-adjusted buying power be at that time?
- What qualifications does the organization that would administer my chosen giving instrument have to be a provider of financial products and services for donors?
- Can you provide me with a comprehensive analysis (covering both financial and personal issues) that directly compares the proposed giving method with the baseline options of the outright gift and bequest?

Summary

We recommend that you keep the giving process as simple and convenient as possible. If you sense that one of the more-complex giving arrangements might be right for you, see your advisors for a comprehensive analysis that uses the outright gift and the bequest as the comparative baseline.

Most important of all—enjoy the process! Focus on the mission. Meet people who are active in the nonprofit world. Volunteer. Get involved. Become part of it. And remember, objectives and values first—tools and techniques later.