PROFESSIONAL FINANCIAL
Purposeful Wealth Management

Wealth Planning Report

Tax-Wise Charitable Giving, with Informed Planning

Americans—especially the affluent and wealthy—are among the most charitable people in the world. Chances are, you may support causes, communities, or organizations that are important to you and lives you want to touch.

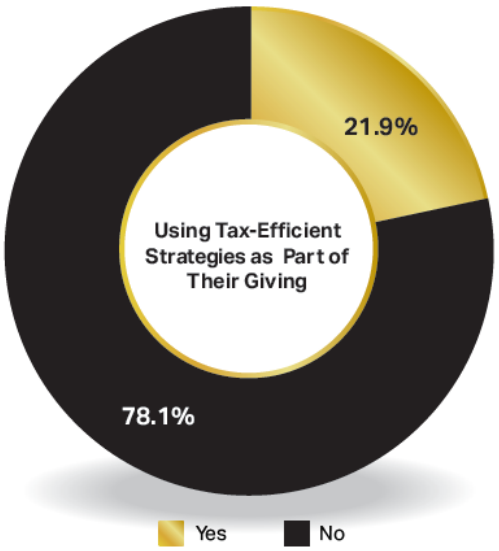
But that giving could have an even greater impact—and it's very possible you're missing out on valuable charitable tax benefits that could greatly impact both you and your favored charities.

Here's how to evaluate the effectiveness of the contributions you give—along with approaches that could potentially magnify and leverage your philanthropy many times over.

The state of affluent giving

Fully 74 percent of affluent Americans say they make significant charitable contributions every year.* In contrast to what some political figures may suggest, that number tells us that affluent Americans are not only able but willing to support communities and causes they care about.

Unfortunately, surveys of affluent donors from AES found that tax-efficient strategies are not part of their normal charitable planning practices. In fact, as seen in **Exhibit 1**, fewer than one donor in five does more than simply write checks each year directly to their charities.



Source: AES Nation, 2018. N = 151 charitably inclined affluent individuals.

Optimizing tax-wise giving

Tax-wise charitable planning, simply stated, is the process of making significant charitable gifts (either during life or at death) that are part of a larger wealth planning strategy—and doing so as tax-efficiently and tax-effectively as possible.

We believe tax-wise charitable giving is best accomplished as part of comprehensive wealth planning that addresses key family issues such as wealth transfer, wealth protection and a secure retirement income. When affluent donors account for their many and varied assets and how they are structured, meaningful charitable gifts could allow for potentially much larger tax benefits. Very often, proactive wealth planning based on an affluent donor's complete financial situation can result in outcomes far better than so-called "checkbook" philanthropy that just gives cash flowing from salary, earnings, pensions, interest, dividends or rents.

Important: Optimized charitable planning arises from a genuine philanthropic agenda that seeks to leverage tax-efficient ways to make giving more impactful. Achieving special goals to make a meaningful impact must be at the heart of charitable wealth planning.

TAX-WISE CHARITABLE PLANNING STRATEGIES

There are many ways, beyond simply writing checks, to make charitable gifts. Three common approaches used by the affluent are:

- **Charitable income trusts.** There are several types of charitable income trusts with different tax and asset protection benefits for donors and charities. Often employed to improve income payouts from property sales, versions of charitable remainder trusts will become an important wealth planning vehicle to mitigate taxes on assets transferred from inherited IRAs to benefit younger generations.
- **Donor-advised funds.** A donor-advised fund (DAF) may be established through a financial services firm, a community foundation or a charitable organization. They manage the fund's day-to-day operations. Donors get immediate tax deductions from contributions irrevocably made to a donor-advised fund. Assets in a DAF are invested

and grow tax-free. Donors can recommend grants later in smaller amounts for the DAF to make to those charities making best use of the grants.

- **Private foundations.** A private foundation is a not-for-profit organization that is established and funded primarily by a wealthy person or their extended family. The assets in a private foundation are called the "endowment." They are invested to produce income used to make grants to support other charities as well as to sustain the operation of the foundation itself. There are substantial governance and compliance requirements and have much higher operating costs.

Some key points to keep in mind about private foundations and more commonly used donor-advised funds used by philanthropically motivated families and individuals:

- A private foundation gives the donor maximum control. The DAF donor technically only recommends which charities receive money. This could be a conflict of interest for DAFs formed by organizations like universities as a residual beneficiary. That said, DAFs through firms like Charles Schwab or Vanguard mostly honor a donor's recommendations, assuming the recipient is a registered charity.
- With a DAF, the assets may be managed by the group entrusted with the money (such as a community foundation) or have some indirect control through choice of an investment advisor within custodial brokerage arrangement. With a private foundation, the donor can more directly select and manage the assets.
- Regarding costs, a private foundation is much more expensive to set up and maintain than a DAF.
- With a private foundation, there are unlimited succession possibilities. A wealthy family can exercise multi-generational control and use the foundation to teach important values such as giving over many generations. In contrast, most donor-advised funds have limited succession arrangements. Usually at the demise of the original grantors and successors, remaining ungranted DAF assets revert into a general pool at the sponsoring organization.

Making a bigger impact

Making tax-wise charitable planning integral to your wealth planning can leverage and multiply giving for you and your family. That said, charitable giving should be motivated by the desire to make a significant impact in your community and your world, encouraging support by your family.

For those who want to make a difference as well as increase family income, smart charitable strategies structured in the right situations could be a powerful tax-advantaged way to magnify family wealth—and ideally do well by doing good.

Advanced wealth planning is ideally about passing a legacy to people you love and causes you care deeply about. Integrating your charitable intentions with family wealth transfer goals should include transferring lasting values to future generations. To explore and assess opportunities to magnify your wealth transfer through informed tax-efficient giving, schedule a conversation with an experienced CFP wealth planning professional.

*Karl Zinsmeister, *The Almanac of American Philanthropy*, The Philanthropy Roundtable, 2017

This is an executive summary of our new wealth management ebook. For a complimentary copy of our complete report, please contact us.

Paul Byron Hill, MBA, MFP, MSFS, ChFC®, RICP®, CFP® is nationally recognized as a Wealth Management Certified Professional™ and Financial Educator, written about in *Fortune, Forbes, Bloomberg Businessweek,* and *Money*. As co-author of *Retire Abundantly*, Paul was interviewed by James Malinchak, of ABC-TV's hit series, *Secret Millionaire*, and by Dimensional Fund Advisors for their "Value of an Advisor" series. Reuters AdvisePoint recognized Mr. Hill in 2007 as one of 500 "Top Advisers" and later featured him on their website's landing page.

Paul founded Professional Financial Strategies, Inc. as one of the first fiduciary advisory firms in 1993 that now specializes in retirement and wealth planning for affluent and aspiring families. Paul acts as a personal chief financial officer in the best interest of clients, bringing together a distinctive management process and a network of specialists for making more informed decisions for smart investing, guaranteed income, mitigating taxes, protecting assets, and preserving wealth for family and causes to make a greater impact and finish strong.

Mr. Hill received a BA with distinction from the University of Rochester and later an MBA in finance from its Simon School of Business. He earned an MS in financial services from The American College along with his Chartered Financial Consultant and Retirement Income Certified Professional designations, and then received an MS in financial planning from the College for Financial Planning (now at the University of Phoenix). The College for Financial Planning appointed him as adjunct faculty, and he has taught at St. John Fisher College. Who's Who presented Paul with the Albert Nelson Marquis Lifetime Achievement Award in 2018 and featured him with other recipients in *The Wall Street Journal*.

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