Making An Impact With Philanthropy

Planning for Charitable Giving

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The best first step in your planning efforts is to understand your options, as there are many ways to accomplish charitable giving

JOSEPH POWERS
Founding Partner & Chief Planning Officer
jpowers@greatdiamondpartners.com
207.274.2507

Key Takeaways:

- Charitable planning is philanthropy that reflects a larger financial or estate plan.
- Charitable giving options range from basic (wills) to advanced (private foundations).
- Getting a second opinion about your current giving strategies is always a good idea.

Do you want to make a major impact with a charity or cause that is important to you? Do you want to do well financially by doing good for others in need? Do you want to leave a legacy while also being able to "make a dent in the universe" as Steve Jobs once talked about?

If so, you've got plenty of company. In our experience, one of the topics we hear about frequently from our clients is charitable giving—how to do it well, and how to do it better.

We all know the best results usually come from good planning—it's uncommon to stumble into a great outcome by coincidence! The same thing also holds true when it comes to philanthropy.

Charitable planning defined

Charitable planning is the process of making a significant charitable gift, during your life or at death, that is part of a broader financial or estate plan and takes the bigger picture into account consideration. In contrast, a single charitable donation made from your current cash flow this year may be a gift—but it's not "planned giving" as we define it.

Planned giving is usually best accomplished as part of your overall financial plan. By considering the various assets you have and how they are structured, we can plot out a path to results that will benefit all who are involved—including you, your family, your business (if you own one), and the charitable organization. To get good results, charitable planning is often coordinated with estate or income tax planning that relies on advanced legal and tax strategies and/or financial products.

Eight ways to give

Philanthropy can take a number of forms. Generally speaking, charitable gifts can provide you with a financial benefit on top of your existing tax deductions—benefits that were put into the tax code specifically to encourage charitable giving.

The best first step in your planning efforts is to understand your options, as there are many ways to accomplish charitable giving. For example:

Option #1: Will bequest

This is the simplest way to give—and the one that is by far the most common among those who have already made a planned gift. Through a will bequest, you can 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, and it does not require a lot of involvement on your part during your lifetime. Also, a will bequest does not require a lot of administrative oversight; the estate simply pays out the designated amount to the charity during the probate period. What's more, will 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.

Option #2: Private foundation

Private, nonprofit organizations receive most of their contributions from a single wealthy individual or family. With a private foundation, a minimum amount of the foundation's assets must be distributed annually (currently about 5 percent).

Option #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, at your own pace, pinpoint certain charities and decide how much to give to each one. You can then request that the fund send a check to your chosen organization.

Option #4: Charitable trust

For many people with wealth and strong charitable intent, charitable trusts are very attractive planned gifts. There are two types of charitable trusts:

- **Charitable remainder trust:** 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.

- **Charitable lead trust:** In 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 the heirs you designate.

Option #5: Supporting organization

A supporting organization is a charity that supports one or more other charities. Very similar to a private foundation, the supporting organization must be structured and operated exclusively for the benefit of (or to carry out the purposes of) one or more specific charities. Therefore, once the supporting organization is established and the charities it supports are designated, changes to the beneficiaries aren't allowed.

Option #6: Charitable gift of life insurance

This approach uses a traditional financial tool—life insurance—in an innovative way. As the donor, you can 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.

Option #7: Charitable gift annuity

This is a contract between you and a qualified charity that exchanges your gift to charity for an annuity (or guaranteed lifelong income) to you. There is a modest income tax deduction for the actuarially determined value of the gift you pass on to charity. As a result, charitable gift annuities can be used to reduce capital gains taxes for gifts of appreciated assets—and also to reduce estate tax liability.

Option #8: Pooled income fund

A pooled income fund is similar 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 passed 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 primary concern, other wealth management strategies separate from planned giving are likely to give you better results.

The upshot: If certain charities and causes are important to you, then philanthropy can be a very effective way for you to do something meaningful for others as well as something that makes good financial sense for you.

The right resources to tap

Charitable planning is often facilitated by a wealth manager with experience working with 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—as well as 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 is high and could impact your ultimate results.

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

Consider getting a second opinion before taking action even if you are a little unsure about the path you're on. This gives you the opportunity to correct mistakes or use solutions and products that can do a lot more to help you accomplish your charitable goals—and have a major impact on a cause you care about. Whether you are looking to take that first step or you are looking for a second opinion, we are always here to answer any questions about charitable giving and your long-term planning.

Feel free to reach out to us to begin a conversation at team@greatdiamondpartners.com

Joseph Powers
Founding Partner &
Chief Planning Officer

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