THE POWER OF BEING UNDERSTOOD

AUDIT | TAX | CONSULTING
NONPROFIT WEBCAST SERIES: DEVELOPING YOUR PLANNED GIVING STRATEGY

Part 2: Strategies, tactics and tools including implications of the tax reform

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Our presenters

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Agenda

• Initial observations of the impact of tax reform on charitable giving
• Charitable planning trends
• Charitable tactics
What’s their Story?

VISION
A desired future state.

VALUES
The rules/standards to be honored.

GOALS
Steps that will take them closer to their Vision.

Source: Copyright www.123rf.com
Profiling Your Donors

• Approximately 47% of HNW Individuals surveyed by US Trust believe that their advisors are good at discussing personal or charitable goals
• Only 63% feel that their advisor is proficient at rendering philanthropic advice
• 71% of advisors start with the technical aspects
Lack of Basic Education is often the first hurdle

• What do you need? Are you stating it clearly enough
• What are they looking for? Are you matching it to their needs
• How much are you/they giving, how are they making a gift and when?
Approaching Don and Virginia GoodMoney

• 65 yr old married couple
• Have been low donors over a long period of time
• Profile shows source of wealth (business earnings), no foundation, no known donor advised fund
  - Google, Guidestar, Grantspace
  - Taking it to next level and looking further
We discover

- Business earnings are from Fortune 500 Company
- Don was a senior executive, Virginia was also employee but retired early to work in the home
- Both retired with grown children
- What’s next?
  - Stock price history if publicly traded
  - Donor profiles of other employees from same company
Source of Wealth Matters

- **Liquidity Event**
  - Trusts for children
  - Family LLCs (Partnerships)
  - Multiple managers

- **Earned Income**
  - Pensions
  - Stock Awards
  - Liquid Investments

- **Appreciated Securities**
- **Legacy Gifts**

- **Appreciated Securities**
- **Structured Gifts** such as pooled income funds
Mary and John Smartfellows

- Mid 40s, young children

- Source of wealth is Mary’s investment management firm
  - Diligence shows it is a hedge fund with strong returns

- Private Foundation created
  - 990 shows small size in private foundation but sizeable grants
  - Diligence shows donor advised fund also used
Source of Wealth Matters

• Basic Investment Manager
  - Management fee based on a percentage of assets under management – 50-100 bps

• Hedge Fund Manager
  - Management fee based on percentage of assets under management – 150-200 bps
  - Carried interest of 20% of profits over a certain amount – earned annually

• Private Equity Manager
  - Same as hedge fund but earned only at liquidity
The Names Change but Trend is same

- Venture Philanthropy
- Impact Philanthropy
- Social Impact Philanthropy
- Impact Investing

Show me results
High Impact Philanthropy

• Primary focus is achieving social impact
• Leveraging best available evidence to identify problems and solutions
• Link costs and impact – where is the best “bang for my buck?”
• Continual learning – refine and improve

Adapted from Center for High Impact Philanthropy, University of Pennsylvania
MAKE A PLAN

Helping to craft a philanthropic plan
Moving from Checkbook to Structured Giving

- Checkbook Philanthropy is starting (and for many, the ending point)
- Private Foundations vs Donor Advised Funds (vs. Pooled Giving Funds)
- Structured legacy gifts
Basic Elements of a Philanthropic Plan

1. Define Your Values, Goals and Theory of Change
   - What values do you want to encapsulate in your philanthropy?

2. Develop a Vision and Strategy for Your Gifting
   - What is your theory of change, and how will you accomplish it?

3. Select the Gifting Vehicles
   - What gifting vehicle is best suited to help you meet your goals?

4. Implement Your Gifting Program
   - What are the best charities to partner with in your efforts?

5. Monitor, Evaluate, Revise
   - How will you define success? How often will you evaluate objectives?

6. Success
   - Are you satisfied with the result of your giving?
Factors to Consider in Donating

- Desire to provide current charitable benefit
- Retain long-term economic benefit for family
- Tax-efficient wealth transfer
- Maximum Tax Deduction
- Irrevocable Transfer
- Immediate Gift to Charity
- Retain current income interest
- Long-term economic benefit to charity
- Partial tax deduction
- Tax deferral on income and gains
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Potential Gifting Strategy

- Charitable Lead Trust
- Outright Gift
- Charitable Remainder Trust
Expected Drop in Donations?

• The new law nearly doubles the standard deduction – or the amount taxpayers are allowed to subtract from their taxable income.
  - Up to $12,000 for singles (vs $6350 for 2017) and $24,000 for married couples filing jointly (up from $12,700 in 2017)

• Taxpayers may opt to make sizeable donations in alternate years, allowing them to maximize the impact (deductibility) of these donations by itemizing --*aka “bunching”*
Planned Giving Becomes More Interesting

• If donors are concerned about the recipient of these funds, a chance to have control over how they are disbursed in the future may be more attractive to them.

• Strategies that qualify as a taxable gift today but allow for donor control may be more interesting to clients.
Restricted vs. Unrestricted Gifts

- Donors seem receptive to unrestricted gifts but have concerns that can be addressed. *(US Trust)*

![Diagram showing objectives of largest gifts made in 2015](image)
Restricted vs. Unrestricted Gifts

Figure 12: High Net Worth Donors’ Beliefs About Unrestricted Giving

- ...allow organizations to meet and sustain their missions: 44.2%
- ...places the decisions about funding allocation and budgeting at the organization level: 38.8%
- ...are critical to the survival of organizations: 29.1%
- ...are often misapplied or not used most efficiently and effectively: 28.8%
- ...make it challenging for me to know if I’m making a difference with my giving: 27.3%
- ...give organizations the ability to build capacity: 21.6%
- Other: 1.7%
Restricted vs. Unrestricted Gifts

**Figure 11**

High Net Worth Donors’ Beliefs About Restricted Giving

- **...are more effective because they are more targeted**: 38.6%
- **...limit the ability of organizations to make appropriate budget allocations**: 30.6%
- **...are easier to monitor and track the impact of**: 21.8%
- **...are more appropriate when giving in your or someone else’s name**: 19.5%
- **...do not address the basic operational needs of organizations**: 16.8%
- **...are primarily useful for capital funding**: 12.1%
- **Other**: 4.1%
Factors to Consider in Donating

- Desire to provide current charitable benefit
- Retain long-term economic benefit for family
- Tax-efficient wealth transfer

- Maximum Tax Deduction
- Irrevocable Transfer
- **CONTROL over Gift to Charity**

- Retain current income interest
- Long-term economic benefit to charity
- Partial tax deduction
- Tax deferral on income and gains

Potential Gifting Strategy

- **Outright Gift**
- **Private foundation**
- **Donor Advised Fund**
Community Foundations – Donor Advised Funds

- No start up costs
- Minimal administrative costs – majority of administration is handled by the Community Foundation
- No limits on contributions of restricted stock
- No current minimum distribution requirements
- No annual taxes
- No tax return requirements

- Donor loses legal control over assets – donor can request grants to specific recipients. But Community Foundation Board makes the ultimate decision
  - In Donor Advised Fund, the DAF Board makes ultimate approval of grants
- Investment options can be limited; some have higher fees and costs of operation
Private Foundations

- Maximum independence and control
- Donor and board control all investment decisions
- Donor and board control all grant making bequests
- Donor and board control board selection

- With smaller donations, startup and continuing administration costs (primarily accounting and legal fees)
- Subject to annual 1% to 2% tax on net investment income
- Must distribute approximately 5% of fair market value (FMV) of assets each year
Tax Bill Leaves Open Questions

• Will “bunching” really take off?
• How are pre-existing pledges handled? Issues with donor advised funds
• What about paying for tables and tickets to events?
• What about grants from Private Foundations to Donor Advised Funds?
What should Charities be Focusing on?

• Uneven Income Flows if “bunching” takes off
• Misinformation on tax law with donors
• Uncertainty as to impact of new tax law on their overall financial picture
• Possible renewed focus on different demographics (younger donors vs middle age donors who benefit from "bunching")
• Possible renewed focus on structured or legacy gifts
Factors to Consider in Donating

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Potential Gifting Strategy

Charitable Lead Trust

Charitable Remainder Trust
Charitable Lead Trust

Donor

Contributes assets that are expected to appreciate; gift tax incurred on PV of remainder interest

CLT pays an annuity back to Charity for term of trust

Trust for Beneficiaries

At termination of CLT, remainder of assets pass to beneficiaries free of additional gift or estate tax

Charity

Earnings must exceed the presumed interest rate (applicable federal rate) to ensure a gift is made to beneficiaries

Investment Portfolio
Charitable Remainder Trust

Donor

Contribute appreciated (low basis) assets

Trustee sells assets without capital gains tax; can reinvest proceeds in a diversified portfolio

Charitable Remainder Trust

At termination of CRT, remainder of assets pass to charity

Income retains the character as earned in the CRT and is recognized as such upon receipt

Charitable Remainder Trust

Investment Portfolio

Current Year

Prior Year

<table>
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<th>Interest</th>
<th>Interest</th>
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<tr>
<td>STCG</td>
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<tr>
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<td>LTCG</td>
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<tr>
<td>Pre Contribution CG</td>
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</tbody>
</table>
Net Income CRTs (aka “NIMCRUTS”)

Donor

Contribute appreciated (low basis) assets

Income retains the character as earned in the CRT and is recognized as such upon receipt

Charitable Remainder Trust

Trustee sells assets without capital gains tax; can reinvest proceeds in a diversified portfolio

CRT pays based on the structure of the NIMCRUT

* At a set date
* When INCOME is earned

In a NIMCRUT (Net Income with Makeup Charitable Remainder Unitrust), the income stream can be retained in the CRT and compounds tax free until it is "turned on"

Investment Portfolio

At termination of CRT, remainder of assets pass to charity

Charity
QUESTIONS AND ANSWERS?
THANK YOU FOR YOUR TIME AND ATTENTION