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***TWO WAYS TO AMPLIFY YOUR
CHARITABLE GIVING***

The right strategies and solutions can help you enhance your ability to meaningfully support charities and other causes. Check out how private foundations and donor-advised funds can empower you to “make a dent in the universe.”

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Two Ways to Amplify Your Charitable Giving

KEY TAKEAWAYS

- Private foundations offer advantages in terms of the level of control and flexibility they offer.
- Donor-advised funds are a more convenient and easy-to-operate option, with especially good tax benefits.
- A private foundation can be converted to a donor-advised fund.

One of the top lessons that we have learned from working with extremely wealthy individuals and families—those with a net worth of at least \$25 million, whom we call the Super Rich—is the importance of magnifying the positive impact of financial decisions. By regularly using certain high-value strategies, resources and tools, the Super Rich as a group do a great job of increasing the probability of generating bigger and better financial outcomes than they might otherwise achieve.

It's advice we should all consider as we look to make smart decisions about wealth.

Take charitable giving, for example. The Super Rich we have worked with understand that direct "checkbook philanthropy," while nice, can be too impulsive or inconsistent—and usually isn't nearly as powerful as is implementing a more formal, organized and systematic approach to supporting important causes and charities.

With that in mind, here are two ways that we see the Super Rich amplify the power of their philanthropy—each with its own level of control, flexibility and other traits—and how you can utilize them if you want to use your wealth to improve your communities, or even the world.

Important: As of the writing of this report, legislation introduced in Congress could significantly impact some of the features of private foundations and donor-advised funds discussed in this report—including their tax status, annual distribution requirements and other rules regarding payout requirements. Consult with a financial advisor or philanthropic advisor to discuss the latest developments.

Private foundations

A private foundation* is a freestanding, tax-exempt legal entity—technically, a section 501(c)(3) nonprofit organization that isn't a public charity—usually set up by an individual or a family, with a large initial donation, to support charitable activities. Future donations usually come from the family or from businesses, and the assets are managed by the foundation's trustees, who may choose to invest in ways that can help grow the pool of assets to be given out as grants.

Families that are deeply interested in charitable giving tend to discover a lot to like about private foundations. For example:

- **Legacy.** Private foundations are often set up by patriarchs and matriarchs to help express their family's shared charitable values, get heirs involved in philanthropy early in life, and create stronger family bonds by working together to make charitable decisions. Private foundations can be set up in perpetuity—giving multiple generations a way to work together for a very long time, potentially.
- **Control.** One of the biggest benefits of private foundations in the eyes of the affluent is control. Because it's set up as its own entity, a private foundation gives families flexibility that can't be found among most other types of charitable vehicles. For example:
 - The founders can appoint the trustees or the members of the board of directors who will oversee the foundation.
 - Family members (as trustees or board members) get to determine the investment strategies, managers, vehicles and policies.
 - Family members (as trustees/board members) have full control over grantmaking.
 - Foundations can give in ways that go beyond other IRS-recognized public charities—such as grants to individuals, fellowships or scholarship programs—that other charitable vehicles don't allow.
- **Flexibility.** A broad and diverse range of assets can be contributed to a private foundation—such as private equity, real estate, life insurance, family business assets (with some restrictions) and even collectibles. Many other charitable vehicles are limited to accepting cash and publicly traded securities.
- **Good tax benefits.** To encourage donors' philanthropy, a private foundation can potentially provide an immediate tax deduction of up to 30 percent of adjusted gross income for gifts of cash and up to 20 percent of AGI for contributions of long-term, publicly traded appreciated securities. (And contributions that exceed the limits can be carried over into each of the next five years.)

**Throughout this report, private foundation refers to non-operating private foundations.*

Traits about private foundations that are often seen as negative or unappealing include:

- **Oversight and administration.** A foundation has to file annually with the IRS and comply with other state/federal filing requirements. It's also subject to complex rules and regulations to ensure that funds are used to benefit charities and not the people who established the foundation.

Important: As part of the annual filing with the IRS, a private foundation must list its assets, contributors and grantees. In short, private foundations don't provide for total anonymity.

- **Costs.** The ongoing administrative expenses associated with a private foundation can be significant, depending on a foundation's size and complexity. A foundation may need to enlist staff, vendors, technology and other resources for its operation—all of which can add up fast. There may be sizable program-related costs, too—for example, if the foundation sets up its own awards or other programs. That said, if the foundation primarily makes cash grants to public nonprofits, costs could be minimal.
- **Required payouts.** The IRS requires a 5 percent minimum distribution—meaning a private non-operating foundation must distribute 5 percent of the value of its net investment assets annually. The annual payout can be in the form of grants or eligible administrative expenses. A foundation will be subject to excise tax on the undistributed amount. If the foundation misses the minimum required distribution, its taxes may be impacted in future years.

Bottom line: A foundation may be a great tool for someone who wants a high degree of involvement in their charitable giving, is interested in creative grantmaking, highly values having control and flexibility, and sees the benefit of engaging family members and others in the process.



Donor-advised funds

If you want something akin to a private foundation but don't want the work it takes to operate one—or don't have the assets needed to make it worthwhile—consider a donor-advised fund.

Think of donor-advised funds as a bit like a combination of a private foundation and a mutual fund. Instead of setting up your own legal entity and incurring the initial and ongoing costs of running it, you simply open a DAF account offered by an existing charity or other sponsor (such as a financial institution or a university). Your contribution—which is an irrevocable gift to the fund—is pooled along with others' contributions into a fund that's invested and maintained by the sponsor.

The result: You get professionally managed assets at a much lower cost than a private foundation. What's more, some DAFs will let you open an account with no minimum required amount.

Other DAF benefits include:

- **Better tax breaks.** Donors in a DAF can potentially get an immediate tax deduction of up to 60 percent of AGI for gifts of cash and up to 30 percent of AGI for contributions of long-term, publicly traded appreciated securities—an even better deal than is available via a private foundation.
- **No administration or oversight requirements.** As the donor, you don't have to file state or federal filings, hire staff, appoint a board of directors, and so on. The DAF handles all reporting, record-keeping and compliance.
- **No required payouts.** In contrast with a private foundation's "5 percent rule," a DAF typically has no minimum distribution requirement. If you don't want to make a grant in a particular year—or even for a few years—and instead want to let the assets in the fund grow, you can do so without getting penalized.
- **Anonymous giving.** Privacy is a key benefit of DAFs, as they let donors making grants remain anonymous—and the grant recipients don't need to be publicly named, either.

On the flipside, you'll find you have significantly less control, freedom and flexibility with a DAF. Some of the limitations you'll encounter:

- **Less control over grantmaking.** When you want to make a grant from a DAF to a charity, you technically have to make a recommendation to the organization DAF sponsor—which can choose to accept or reject your recommendation. Recommendations are almost always honored, but it's not a guarantee.

- **Less flexibility.** Typically, DAFs will allow you to make grants only to registered 501(c)(3) charitable organizations—you can't support specific individuals or families or other, more esoteric organizations that private foundations can. The good news: More than one million 501(c)(3) organizations currently exist, giving you plenty of options.
- **Restrictive asset and investment rules.** In general, DAFs accept as contributions only cash equivalents, publicly traded securities and mutual funds. What's more, you'll likely need to choose from a preselected menu of investment options for the funds in your account—often mutual funds or similar pooled investments.
- **Fewer opportunities for legacy planning.** DAFs may let donors appoint successors for only one or two generations—meaning that your DAF probably won't exist in perpetuity as a private foundation can. Eventually, control of the account could revert to the company or organization sponsoring the DAF.

Bottom line: A DAF may be a great tool for someone who values convenience and ease of operation, wants a turnkey solution that allows them to act quickly, and wants to minimize administrative responsibilities.

Transitioning from one to another

It's important to note that if you set up a private foundation, you can choose to convert it to a DAF down the road. This might occur if, for example, you decide to take advantage of the higher tax deductions offered by DAFs—or if heirs choose to pursue their own separate philanthropic endeavors. Of course, by doing a conversion, you'll lose many of those unique advantages and characteristics of private foundations. What's more, once you convert, there are rules that make it almost impossible to go back. The upshot: Make sure the advantages of a DAF are strong enough to warrant the switch.

Conclusion

If you have a strong charitable intent, it makes sense to consider strategies and solutions that can help you potentially magnify the impact of your giving and create a method for systematic giving over many years—or even generations. And if you want to be involved in those decisions during your lifetime, private foundations and DAFs should be on the short list of options. The good news: More advisors are focusing on charitable planning with their clients, and we're seeing more specialty firms that can assist advisors and families in such planning.



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