BESSEMER TRUST

## A Closer Look

# Ways to Give

**Caroline W. Hodkinson**
Philanthropy Advisor

## In Brief

- **There are many factors to consider when making charitable donations to support the causes that are most important to you, ranging from which organizations to support and the timing of your gift to the way you make your gift.**
- **In this *A Closer Look*, we examine some of the key issues to consider in determining the specific ways in which you can make your charitable giving meaningful.**

Through our interdisciplinary client management process, we work with clients to understand the many factors that may influence philanthropic planning. We often begin by exploring how life experiences and beliefs influence motivations and values that may drive subsequent decisions about specific causes and interests. A gift's timing, scale, and funding source are essential issues to consider alongside the role that family or others may play. We work with our clients to define their philanthropic goals in relation to five key elements (Exhibit 1).

**Motivation**: The first phase involves developing a plan to identify and discuss your motivations for giving. Are you seeking to perpetuate personal or family values? Are you motivated by tax benefits? Are you looking to make a lasting impact on your community? Do you want to honor or memorialize a friend or loved one? Usually, our clients have a combination of motives.

**Interests**: The next step is to explore your interests and how they could influence your approach. What causes or organizations are most important to you or your family? Do you want to focus your giving on a specific geographic region? Do you have a preference for giving to well-established not-for-profits, or startup charities?

**Timing**: It may be important to discuss the timing and tax implications of your philanthropy. Are you experiencing a significant income or liquidity event this year? Are you concerned about the role philanthropy will play in your estate plan? Are you willing to make gifts that may not end up being tax deductible?

**Scale**: We next consider how philanthropy might fit into your annual spending and financial plan. Do you foresee a one-time gift, an annual donation, perpetual giving, or future giving? How do you plan to fund your giving? With cash, stock, real assets, or other assets?

**Involvement**: The final phase is to discuss the level of personal and family involvement you will find most meaningful. How much time do you want to devote?

### Exhibit 1: Key Elements of Giving

**Key Takeaway:** Understanding the five elements of giving helps a philanthropically minded person better define and achieve goals.

**Motivation** → **Interests** → **Timing** → **Scale** → **Involvement**

### From Liquidity to Philanthropy

An entrepreneur experienced a significant liquidity event when she sold her company. She wanted to support self-esteem and empowerment programs for girls, especially in the areas of science and technology. She set up a donor-advised fund that enabled her to start funding her causes quickly, while also maximizing the income tax deduction for charitable contributions.

How much do you want to be involved with a nonprofit organization (as a donor, volunteer, board member, or a combination)? Do you plan to have other family members participate in decisions?

## Ways to Give

Once you have determined what you are trying to accomplish, how you wish to be involved, and the financial parameters and timing of your giving, we can discuss a range of strategies to help you fulfill your philanthropic goals. Some of the more straightforward ways to give during your lifetime include the methods described below.

**Direct Giving**: Direct giving to a qualified charity may be the simplest way to give. Gifts can be made with a personal check, securities, or other assets. Your gift is typically tax deductible in the year in which it is given, subject to percentage-of-income limitations (currently no more than 50% of adjusted gross income).

**Private Foundation**: A private foundation is a corporation or trust that receives most of its funding from a single source, such as an individual, family, or corporation. With a private foundation, assets are irrevocably transferred to the foundation, which can have tax and estate planning advantages. Donations to private foundations are generally tax deductible for the year in which they are made, typically up to 30% of adjusted gross income. On the other hand, establishing a foundation involves startup and legal costs, as well as ongoing administrative expenses. Each year, a foundation is required to distribute to charities at least 5% of its net assets.

**Donor-Advised Fund**: You can establish a donor-advised fund (DAF) with a sponsoring institution such as Bessemer or a local community foundation. (Bessemer's DAF is called the Bessemer National Gift Fund.) You or a designated individual can then recommend a charitable recipient for your donated funds.

The sponsoring institution typically follows your recommendation, as long as it is to a qualified charitable organization. As with a private foundation, your contributions to a DAF are irrevocable and transferred out of your estate. But in contrast to private foundations, DAFs are relatively simple to establish and have low annual fees.

### Integrated Estate Planning

A client wished to support causes during her lifetime while providing a legacy for her family. She established a charitable lead trust, which would generate annual income payments to designated charities during her lifetime and ultimately transfer the remaining trust assets to her beneficiaries. To develop a long-term giving strategy that would eventually involve her children, she also funded a donor-advised fund at Bessemer Trust, designating her children as successor advisors. The donor-advised fund will receive the annual income from the charitable lead trust, which allows the fund assets to grow and her children to become familiar with family giving before they become officially involved. It also gives the donor and her family anonymity so that they do not become inundated with solicitations.

The sponsoring institution is responsible for all administration of the DAF. As with direct gifts, DAF donations are usually tax deductible during the year in which they are made, up to 50% of adjusted gross income.

There are other less commonly used strategies that you may wish to consider, including a private operating foundation, a supporting organization, and a split-interest trust such as a charitable remainder or lead trust. Most of the vehicles can be created during lifetime or upon death. Bessemer's philanthropy specialists can work with you and your legal advisors to determine whether these alternatives make sense for you and your family.

## Deciding Which Way Is Best for You

Once we have defined the giving objectives and reviewed the approaches that may be appropriate for your goals, we assess the benefits and disadvantages that different strategies may have in terms of various considerations: control and responsibility, costs, privacy, and family involvement and legacy (Exhibit 2).

**Control and Responsibility**: For those considering ongoing giving, certain strategies, including direct giving and private foundations, offer greater control than other vehicles, such as a DAF. Direct giving can give you complete control over the amount, timing, and frequency of your gift, but there is no assurance that your heirs will continue to support your causes, and the receiving organization will have less certainty than it would with a commitment for ongoing gifts. We often work with donors to negotiate specific terms important to the donor and the charity, which for larger gifts can be more complex.

Private foundations allow for a high level of involvement and control by the family, with family members able to serve as directors or trustees. Donors are often attracted by the ability to continue to invest the charitable assets themselves.

### Multiple Objectives — Flexible Approach

An individual sold his manufacturing company and had significant assets designated for giving. His primary interests were in supporting youth and health causes through grants, direct gifts, loans, and other giving methods. Given the level of assets he was committing to philanthropy and the complexity of his giving plan, he decided to establish a private foundation because of its tax advantages and the flexibility it affords his family in choosing how to structure gifts.

### Exhibit 2: Giving Vehicles Comparison

**Key takeaway:** Each giving vehicle offers a different level of commitment, advantages, and follow-on responsibility.

| | Direct Giving | Private Foundation | DAF |
|---|---|---|---|
| Control/responsibility | Medium | High | Low |
| Cost | Low | High | Medium |
| Tax deductibility | High | Medium | High |
| Tax-free growth of earnings | Low or Not Applicable | Medium | High |
| Perpetuity | Low | High | High* |
| Privacy | High | Low | High |
| Family involvement | Low | High | Medium |

* Depending on structure and terms of the DAF. The Bessemer National Gift Trust, for example, does not have time restrictions on gifting.
Source: Bessemer Trust

### Solving for Privacy

Recently, we worked with a family that chose to establish a donor-advised fund instead of a foundation because of privacy concerns. This family lives in a small rural community and they believed that giving in a very public way could lead to unwanted attention from friends and neighbors.

Foundations also afford a variety of ways to give through grants, prizes, gifts, loans, and other methods that give the family greater influence over the ultimate use of the funds. With a DAF, by contrast, you have no legal control over where your donations actually go, although, in practice, the DAF administrator typically follows the donor's request.

In addition to varying degrees of control, each approach comes with different levels of scrutiny. Private foundations are subject to considerable oversight to ensure they are meeting financial and regulatory standards and a DAF has similar requirements. For example, with foundations and DAFs, donors must take care to avoid self-dealing — or using foundation funds for personal benefit, such as purchasing tickets for a charitable event that includes dinner or entertainment.

**Costs**: Initial startup costs and ongoing administrative expenses are often a significant concern when deciding how to give. Direct giving is extremely cost-effective, typically requiring only the time it takes to write a check. Private foundations involve startup and ongoing administrative and investment management costs, which can be significant. Donor-advised funds are typically less costly than private foundations, which may make them appropriate for smaller, less-complex giving goals.

**Privacy**: You may wish to keep your giving confidential to avoid solicitation from other causes. Conversely, you may wish to motivate others to join in your cause by publicizing your efforts. On one end of the spectrum, direct, personal giving provides you with complete discretion regarding anonymity. A gift to a DAF is similar with respect to privacy in that you can choose for your donation to be confidential. On the other hand, giving through a foundation presents privacy challenges because of required IRS reporting, including substantial details on those involved with, or giving to, the foundation. This information is publicly available and is updated annually. Choosing an unrelated name for your foundation may help, but major contribution information is still available through public records. Such details may be used by other nonprofits to target potential new donors and make unsolicited grant requests to foundations.

**Family Involvement and Legacy**: Your philanthropic endeavors can provide an actionable way to involve and educate the next generation, help instill important values and a sense of responsibility, and increase younger generations' financial acumen. Direct giving offers a limited opportunity for ongoing family involvement, while private foundations and donor-advised funds offer more long-term opportunities for family participation. A private foundation can retain family members as paid employees and can be set up to exist in perpetuity, ensuring a family's philanthropic legacy endures for several generations. While the life of a donor-advised fund depends on the sponsoring institution, it may continue for several generations, with the potential for multiple generations of family involvement.

## Developing an Effective Giving Strategy

The past several decades have seen a broadening array of charitable vehicles — some of which can be complex — in response to donor needs, regulatory changes, tax laws, and other considerations. While this has led to more choice and flexibility, it also requires significant expertise to navigate the range of giving structures and develop a long-term strategic perspective.

Bessemer Trust's Philanthropic Advisory Services specialists understand that you have unique goals, circumstances, and preferences that may affect your charitable-giving decisions. We work closely with you and your other advisors to ensure that we address all factors that may impact your approach. Our mission is to help you develop a comprehensive long-term philanthropic strategy that integrates your charitable giving with your overall wealth plan.

If a DAF is part of your giving plan, Bessemer Trust offers the Bessemer National Gift Fund, a donor-advised fund that is designed to simplify giving for our clients in a cost-effective and tax-efficient way. Regardless of the giving strategy you select, our Philanthropic Advisory Services specialists can help perform research, due diligence, assessment, and evaluation of select charities.

For more information on how Bessemer Trust can help you and your family with philanthropic planning, please contact your Client Advisor, who will set up a meeting with one of our philanthropy experts.

### Our Recent Insights

**2016 Elections: First Thoughts — Investment Insights and Video** (November 2016 )

**A Tale of Two Tails — Quarterly Investment Perspective and Video** (Fourth Quarter 2016)

**Personal Umbrella Liability Policy: A Must Have Insurance — A Closer Look and Video** (October 2016)

**The IRS Takes Aim at Valuation Discounts — A Closer Look and Video** (September 2016)

**Liquidity Alternatives for Family Businesses** (June 2016)

**Engaging the Next Generation Through Philanthropy** (March 2016)

To view these and other recent insights, please visit www.bessemer.com.

### About Bessemer Trust

Privately owned and independent, Bessemer Trust is a multifamily office that has served individuals and families of substantial wealth for more than 100 years. Through comprehensive investment management, wealth planning, and family office services, we help clients achieve peace of mind for generations.



ATLANTA • BOSTON • CHICAGO • DALLAS • DENVER • GRAND CAYMAN • GREENWICH
HOUSTON • LONDON • LOS ANGELES • MIAMI • NAPLES • NEW YORK • PALM BEACH • SAN FRANCISCO
SEATTLE • WASHINGTON, D.C. • WILMINGTON • WOODBRIDGE

**Visit us at bessemer.com**