PROFESSIONAL FINANCIAL
Purposeful Wealth Management

Wealth Planning Report

Feeling Philanthropic? A Charitable Planning Primer

Do you want to make a major impact on a charity or cause that you care deeply about? Do you want to do well financially by doing good for others? If so, you've got plenty of company. One top financial issue we hear about from individuals and families we work with is charitable giving—how to do it well, and how to do it better.

We know that better results usually come from informed planning. That especially holds true with philanthropy. *Charitable planning* is the process of making significant charitable gifts that are part of a broader financial or legacy plan aligned with your values.

Smart giving should be integrated as part of an overall financial planning strategy. By considering the types of assets you have, you can plot out a path to outcomes that can be very worthwhile to all parties involved—you, your family, your business (if you own one) as well as the charitable organization. To get those better outcomes, charitable planning should be coordinated with estate and particularly income tax planning.

Good ways to accomplish large charitable giving objectives include:

1. Will bequest. Through a designated bequest, you can leave a charitable gift in your will. The gift does not benefit your favored charity until your will is probated after your demise. A will bequest allows you to use those assets to support you during your lifetime. Bequests are flexible because you control their use during your lifetime, and their value may continue to grow. Your estate is enabled to take an estate tax deduction for the value of the charitable bequest.

2. Private foundation. This is a private, nonprofit organization usually established by a single wealthy individual or family (often very wealthy) that provides most of its contributions. With a private foundation, a minimum amount of foundation assets must be distributed annually, and a complex set of tax rules and filings must be rigorously completed each year.

3. Donor-advised fund (DAF). Think of DAFs as simplified private foundations. Firms such as Schwab or Fidelity create charitable non-profit entities that invest in pooled investment vehicles similar to mutual funds. What you donate earns federal and state income tax deductions for the gift in the year that it is made (subject with carryover provisions). Then, at your own pace, you can identify appropriate charities and decide how much to give to each, and when to give money as "grants," which may be years after your original contribution.

4. Charitable gift of life insurance. This approach uses a traditional financial tool—life insurance—in a non-traditional way. As the donor, you designate a charity as the owner of an existing or new life insurance policy. Your premiums contributed to them become tax-deductible. They leverage the creation of a much more significant charitable gift at your demise in your memory or that of someone who is (or was) close to you.

5. Charitable trust. For those with wealth and charitable intent, charitable trusts are extremely attractive for strategic planning. These provide substantial income tax benefits in the year that the gift is made into a trust. A custom-designed *charitable remainder trust* delays benefits to a charity. Instead, trust income is reserved for you (as the donor) or some other person you specify. Under the terms of the gift, the trust provides income for you for your lifetime or for a set number of years. Once that term is satisfied, the trust terminates, and then one or more charities you named will receive the assets remaining in trust. If you have no current income need but want to retain the principal for you or your family, a *charitable lead trust* will pay income to designated charities for a term of years. The more years, the larger your tax deduction. When the trust terminates, remaining trust assets are returned to you or designated heirs.

RIGHT INTENTIONS AND RIGHT GUIDANCE

6. Pooled income fund. A pooled income fund is much like a charitable remainder trust. It provides income to you and a spouse, typically for life. Pooled funds are typically formed and managed by a charity for the ultimate benefit of that specific charity. Donors contribute securities, cash or other acceptable assets to the pooled income fund. Appreciated stock or real estate are sold with no tax impact to the donor, eliminating capital gain taxes. The charity then manages those assets much like a mutual fund. An income tax deduction is received for the actuarial remainder value of the gift that the charity will eventually receive, also avoiding estate taxes.

Charity first

While charitable gifts can produce substantial income or tax benefits for donors, keep in mind that a *charitable motivation comes first* in the financial equation. If tax mitigation is your primary concern, or leaving a legacy to family is important, other wealth strategies rather than planned giving are likely to be better.

The upshot: If you haven't seriously supported charities or causes regularly, then charitable gifting strategies are not for you. But where specific charities and causes deeply matter to you and you've wanted to do more, then philanthropy rightly done can be a great way to accomplish something truly great for others while doing well for yourself—converting what would have been paid in taxes into something truly purposeful.

The right resources to tap

Charitable planning is facilitated by team of professionals, many working within charitable organizations. There can many moving parts to coordinating some successful giving intentions because of the multiple parties involved—donors, charitable organizations—and the multiple planning goals being pursued (charitable impact, tax mitigation, estate tax reduction, family legacy development and so on).

Do-it-yourself for charitable planning is possible—but likely you'll miss something important that could limit the results you intended.

The good news is that there are many high-caliber wealth managers, philanthropic advisors, private-client lawyers, and accountants who can help you evaluate charitable gifting alternatives—and guide you to your best options. Their collective expertise can be invaluable for making the greatest impact for good possible with your giving.

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

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Paul founded Professional Financial Strategies, Inc. as one of the first fiduciary planning firms in 1993 that now specializes in retirement and wealth management for affluent and aspiring families. Paul is a personal chief financial officer who acts in the best interest of clients. He brings together a distinctive management process and a network of specialists for making informed decisions for structured investing, secure income, mitigating taxes, protecting assets, and preserving wealth for family and purposeful causes.

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, the Humanitarian Award, and featured him with others in *The Wall Street Journal* and other publications.

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