the Connection

A Quarterly Review

2nd Quarter 2015

The Act of Giving

After five years of healthy investment returns many of our clients are feeling more comfortable with the balances in their savings accounts and are looking for ways to use their resources and give back to the community. Charitable giving is a rewarding experience but it can be a challenge as well. It takes time and energy to get involved. Sometimes you are passionate about a cause and it's easy to direct your contributions, other times it seems like there are so many possibilities it is overwhelming to think about. Many questions arise…Is a national organization better than a local organization? How will my contribution really be used? Will my contribution really make a difference? Is it better to make one large contribution to a single cause or smaller contributions to multiple causes?

Charitable giving is a personal choice. There is no right or wrong way to go about it. Some people give on a regular basis throughout their lives others choose to leave a large amount when they pass away.

The IRS recognizes that giving back to the world around you is a good thing. Tax breaks exist for any donation you make to a registered 501 (c) (3) organization. There are a number of ways to go about making and tracking your donations. The majority of people make donations during the year and then turn over the shoebox full of receipts to their accountant at tax time. This works well for most but it is not a formal plan. When the donation amounts get larger, setting up a charitable remainder trust, creating a private family foundation or using a donor-advised fund are ways to formalize your process.

Establishing a charitable remainder trust allows you to set aside assets for charitable purposes, gives you an immediate tax deduction and allows you to continue to have access to a portion of the assets (usually the income) over your lifetime. At your passing the assets go to the named charities.

Two good ways to take advantage of an immediate tax deduction and give to your charities of choice during your lifetime and longer are donor-advised funds and private family foundations.

A donor-advised fund is an account in a public charity whereas a private family foundation is an actual charitable organization. Both allow you to make tax exempt contributions now and then make charitable distributions over time. There are advantages and disadvantages to both structures. Family foundations take more time and energy to manage; for that effort they allow a wider range of investment options and a greater variety of charitable grants. (e.g. direct scholarships or grants to individuals or grants to non-U.S. based organizations.).

Donor-advised funds have become very popular and most major institutions offer good programs. For example at Charles Schwab, you can open an account for as little as $5,000 and make charitable grants for as low as $50. For accounts under $250,000 your investment options are pooled mutual funds. For accounts larger than $250,000 the account owner can designate a manager (GenCap) to invest the assets. The donor-advised fund keeps track of all tax documents and charges an administrative fee (starting at 0.6%) that is charged as an operating expense in the investment allocation.

Family foundations do have greater administrative burdens however there are some very good outsourced services that now make setting up and managing a family foundation faster and easier than in the past. Foundation Source is one of many companies that work with families to set up foundations of $250,000 or more. They provide the administration and tax reporting, a designated manager (GenCap) of the account holder's choice, will manage the investments. The basic fee is about $4,500 a year for a $250,000 foundation. (1.8%)

There are limitations to how much you can claim as a charitable tax write off each year based on Adjusted Gross Income (maximum of 50% AGI). If someone wants to contribute a larger sum at one time, there is a five year carryforward available. I will not get into complicated tax structures in this article.

GenCap
Portfolio Mgmt

Both donor-advised funds and private foundations allow for contributions to be made either one time or ongoing. This a great way to diversify out of highly appreciated securities without paying capital gains tax. Charitable grants can be made any time. Both structures allow for creating a family legacy as they allow for family members to be part of the grant making process and to continue on as the successor decision maker.

Private family foundations require a minimum 5% annual distribution and full public reporting of donations made. Donor-advised funds do not require distributions each year and donors can choose to be named or to be anonymous.

Whether you write individual checks each time, create a family foundation, use a charitable giving donor advised fund, or set up a charitable remainder trust, you should expect to feel good about your actions. Give us a call if you are interested in learning more about how these structures may fit into your plans.

Here is a short list of some organizations our clients are helping today. Please let us know the names of organizations you care about and we will include them on the list next quarter. Let's stay away from political campaigns, religious organizations or alma maters. We are most interested in sharing the names of smaller local groups that others may not have heard of.

CHARITABLE ORANIZATIONS:

All Local Food Banks
www.sfmfoodbank.org
www.shfb.org
www.foodbankccs.org

*Image for Suc*cess
www.imageforsuccess.org

Maya's Music Therapy
www.mayasmusic.org

Canal Alliance
www.canalalliance.org

Friends of the Urban Forest
www.fuf.net

Guide Dogs for the Blind
www.guidedogs.com

Doctors without Borders
www.doctorswithoutborders.org

The Nature Conservancy
www.nature.org

National Kidney Foundation
www.kidney.org

Guide Dogs of America
www.guidedogsofamerica.com

Golden Gate National Parks Conservancy
www.parkconservancy.org

Fine Arts Museums of San Francisco
www.famsf.org