# Planned Giving

Overview and Magnitude



Russell James, J.D., Ph.D., CFP® Director of Graduate Studies in Charitable Planning Texas Tech University Planned giving: Any charitable giving other than a simple, immediate gift of money to charity.

Often involves tax and legal planning.

 Gifts where the transfer to charity is deferred.

 Gifts where the donor receives income or other financial benefits.

Gifts of appreciated assets.

#### The U.S. planned giving industry

The Partnership for Philanthropic Planning (National Committee on Planned Giving) is the largest professional association.

12,000 members including planned giving fundraisers, lawyers, accountants, and financial planners.



#### The Canadian planned giving industry

- The Canadian Association of Gift Planners is the largest Canadian professional association.
- 1,300 members including planned giving fundraisers, lawyers, accountants, and financial planners.



#### Example planned giving activity in the U.S.

77,457 private foundations holding \$518 billion 123,659 charitable trusts holding \$115 billion 122,500 donor advised funds holding \$28 billion 120,000 charitable bequests annually \$23 billion

#### Planned giving: The characters

The employee



The company



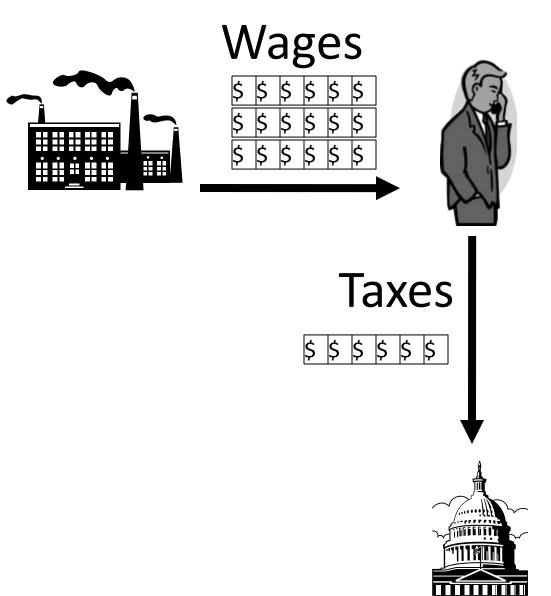
The charity



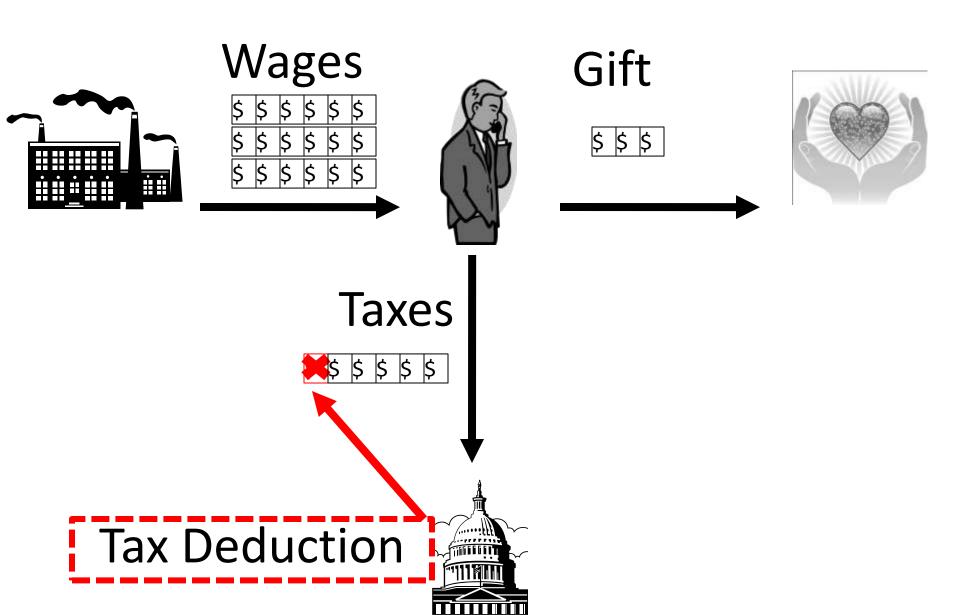
The government



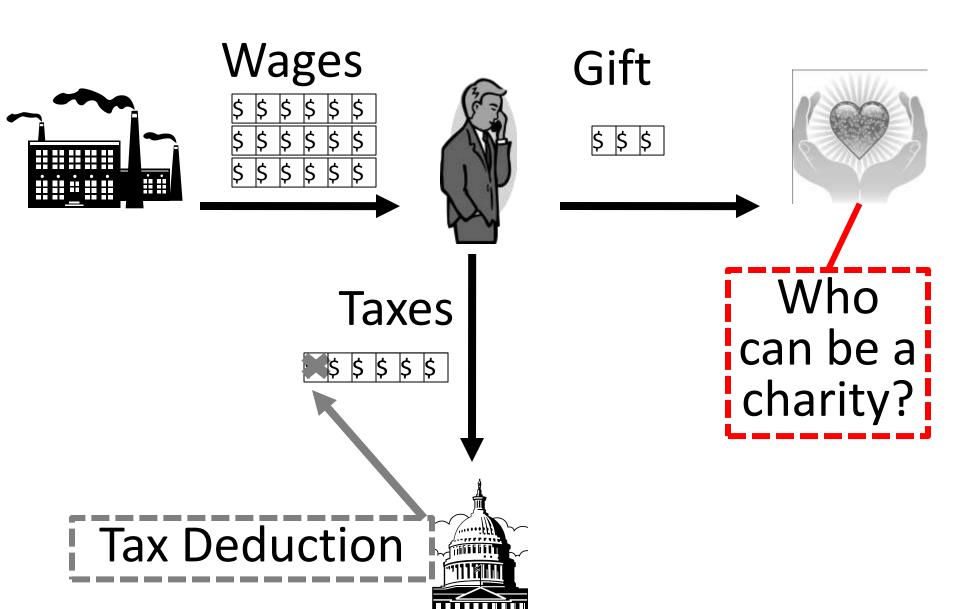
#### **Employees pay income taxes**



#### Gifts to charity receive a tax deduction



#### The charity



#### The charity

- Public charity: 501(c)3
- Operated for charitable purpose
- No private benefit
- Start with IRS Form
   1023 and \$750 fee\*
- Continue with IRS Form
   990 annually (no fee)\*



<sup>\*</sup>not required for churches

#### Simple creation = More charities

501(c)3 public charities in the U.S. in 2008

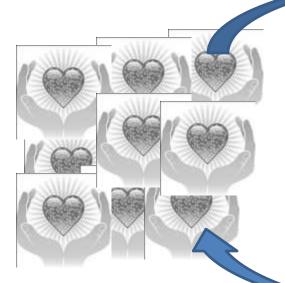
974,337

(Excludes all churches choosing not to file tax forms)

#### 974,337 public charities in the U.S.

More Charities = More Donation Requests and More Donor Choice

More Choice & More Requests = More Giving



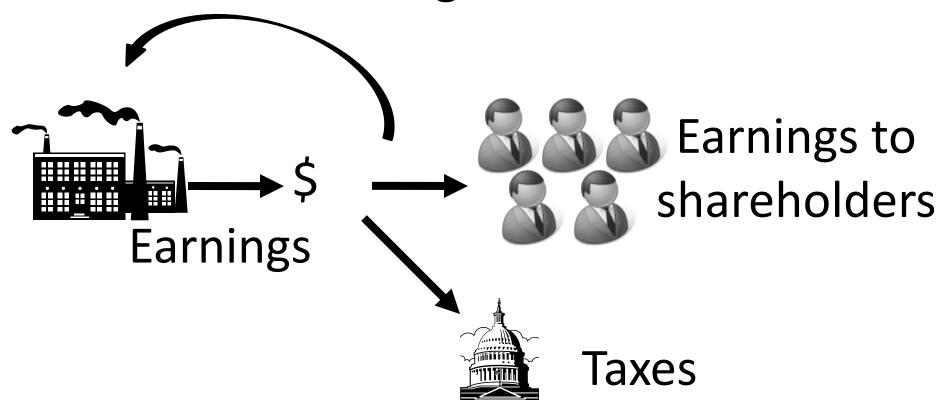
More Choice & More Requests



**More Donations** 

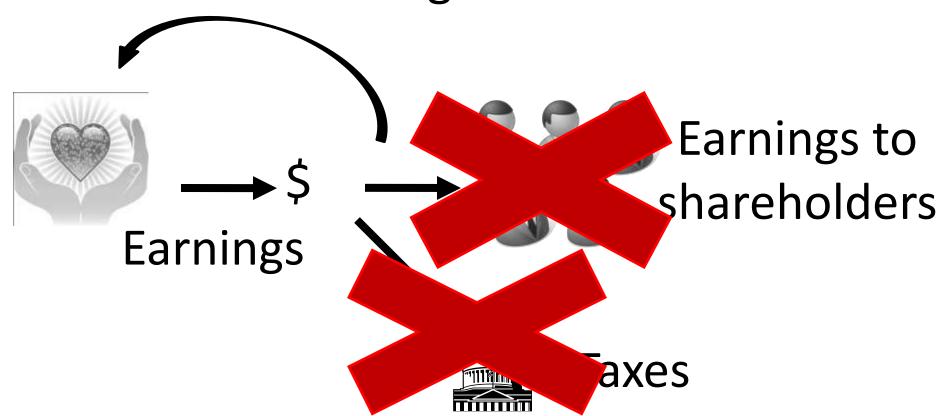
# Companies pay taxes and distribute some earnings

Reinvested earnings

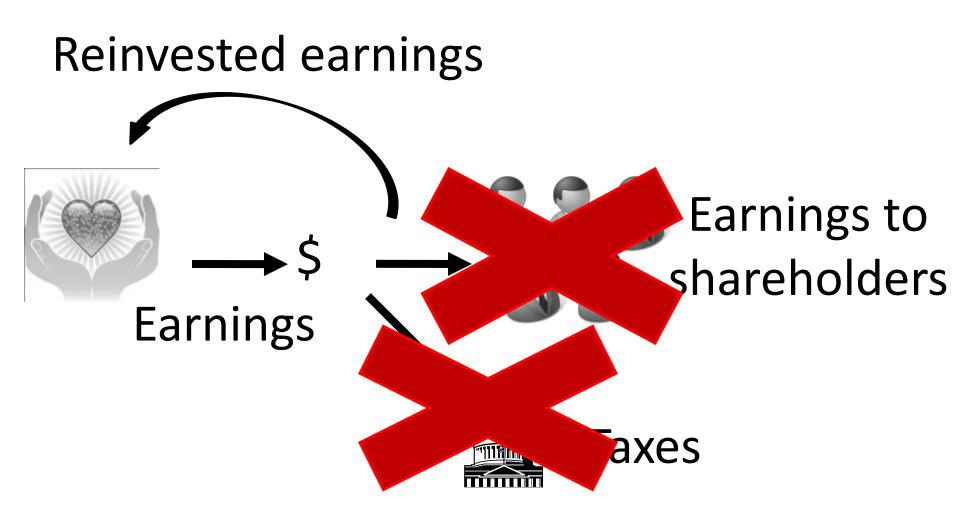


# Charities pay no taxes and distribute no earnings

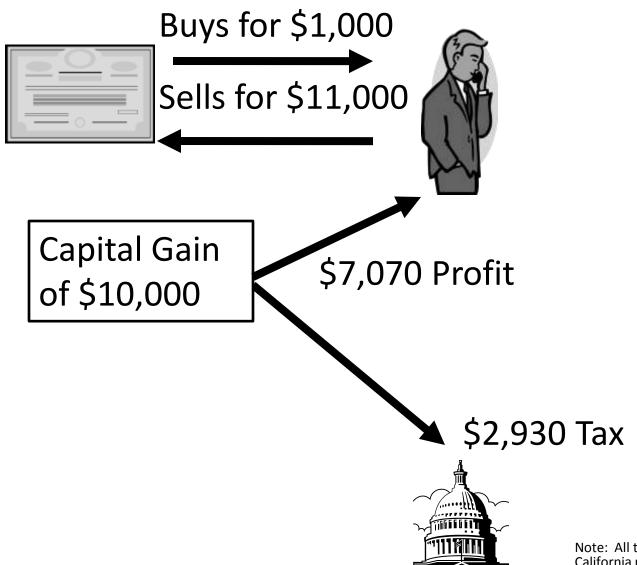
Reinvested earnings



# If a charity sells appreciated property, it pays no taxes on the sale



#### **Normal Capital Gains**



Note: All taxation examples are given based upon a California resident paying the highest marginal tax rates. Other states and incomes will generate less tax.

#### **Giving Property Avoids Capital Gains Tax**



Buys for \$1,000



Gives when worth

\$11,000



Donor receives income tax deduction of \$11,000 reducing taxes paid by as much as \$5,516.

- Charity sells stock
- Charity pays no capital gains tax



# Large tax benefit from giving appreciated property

- 1. Donor gives property
- 2. Charity sells property
- 3. Charity pays no capital gains tax
- 4. Donor pays no capital gains tax
- 5. Donor receives tax deduction for full value of property

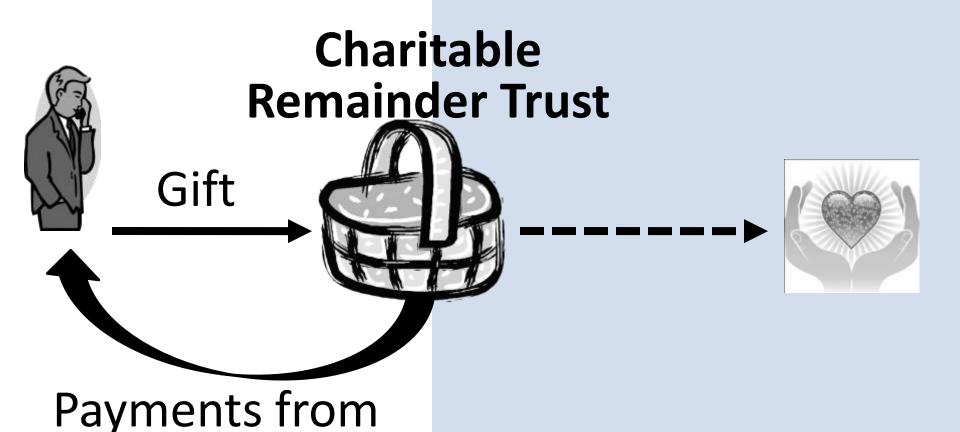
### Some planned giving devices combine this tax benefit with other benefits

- Charitable Remainder Trust
- Charitable Leads Trust
- Pooled Income Funds

During Donor Life or Set Years

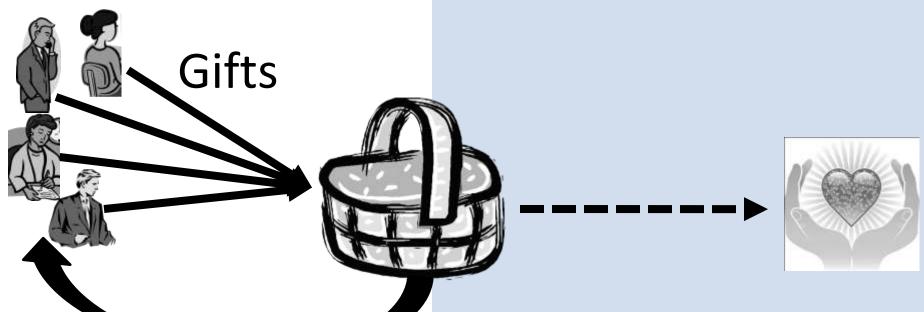
income or assets

End of Life or Set Years



#### End of Life

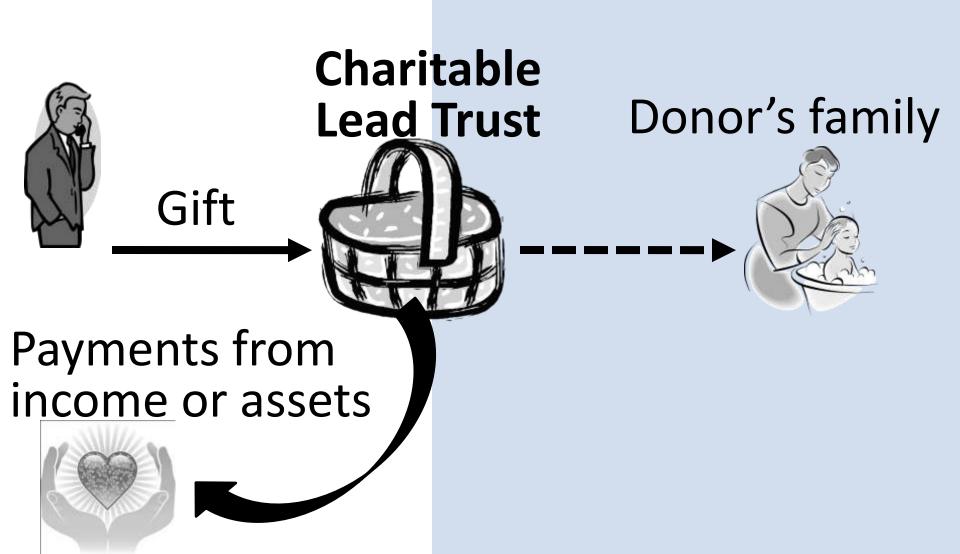
#### **Pooled Income Fund**



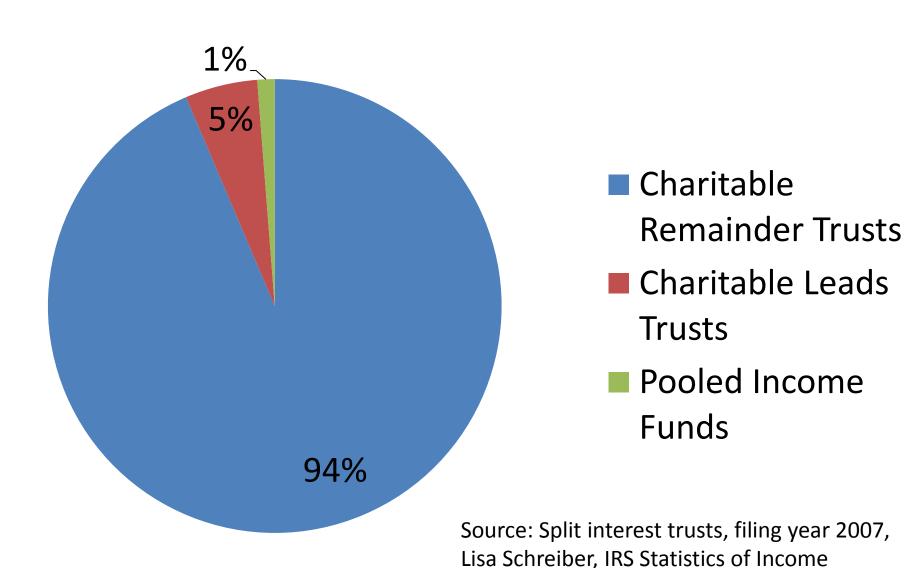
Payments from shared pool of income and assets

During Donor Life or Set Years

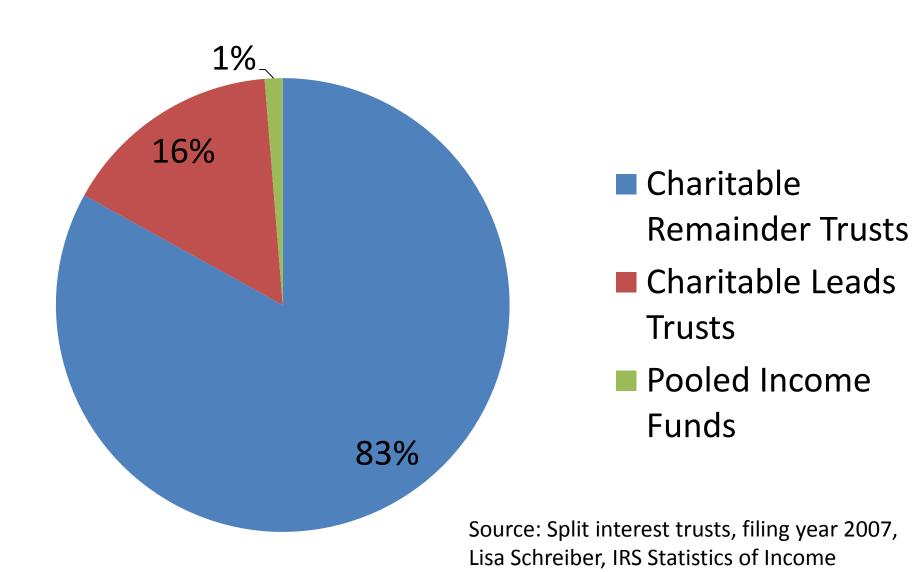
End of Life or Set Years



#### Charitable trust types by number



#### Charitable trust types by asset value



#### Charitable Remainder Trusts

(US in 2007)

Total number: 115,754

Total assets: \$97,307,466,000

Annual charitable distributions: \$1,547,930,000

Annual share of assets to charity: 1.59%

Source: Split interest trusts, filing year 2007, Lisa Schreiber, IRS Statistics of Income

#### Pooled Income Funds

(US in 2007)

Total number: 1,528

Total assets: \$1,607,555,000

Annual charitable distributions: \$81,229,000

Annual share of assets to charity: 5.05%

Source: Split interest trusts, filing year 2007, Lisa Schreiber, IRS Statistics of Income

#### Charitable Leads Trusts

(US in 2007)

Total number: 6,377

Total assets: \$18,690,926,000

Annual charitable distributions: \$956,154,000

Annual share of assets to charity: 5.12%

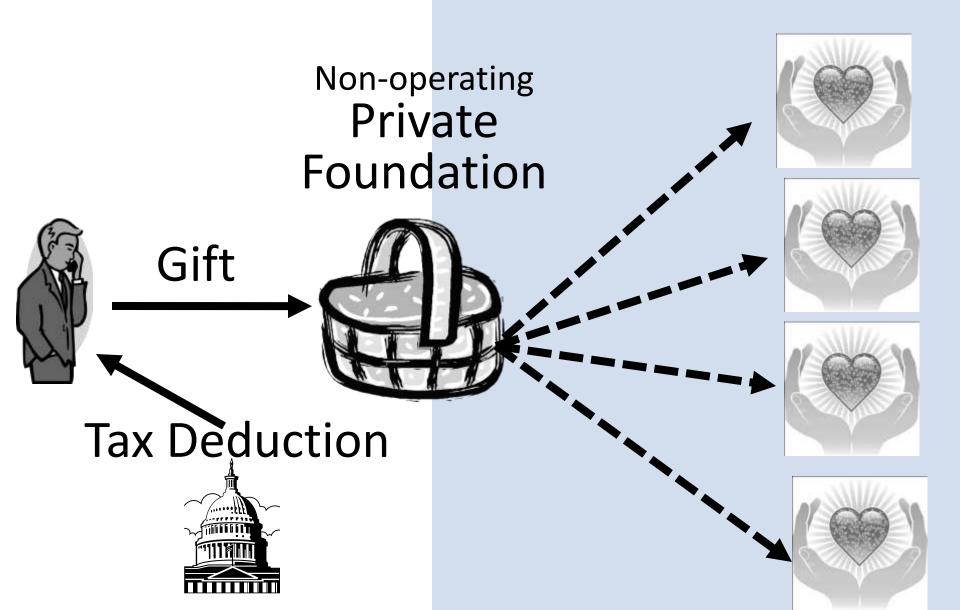
Source: Split interest trusts, filing year 2007, Lisa Schreiber, IRS Statistics of Income

#### Now

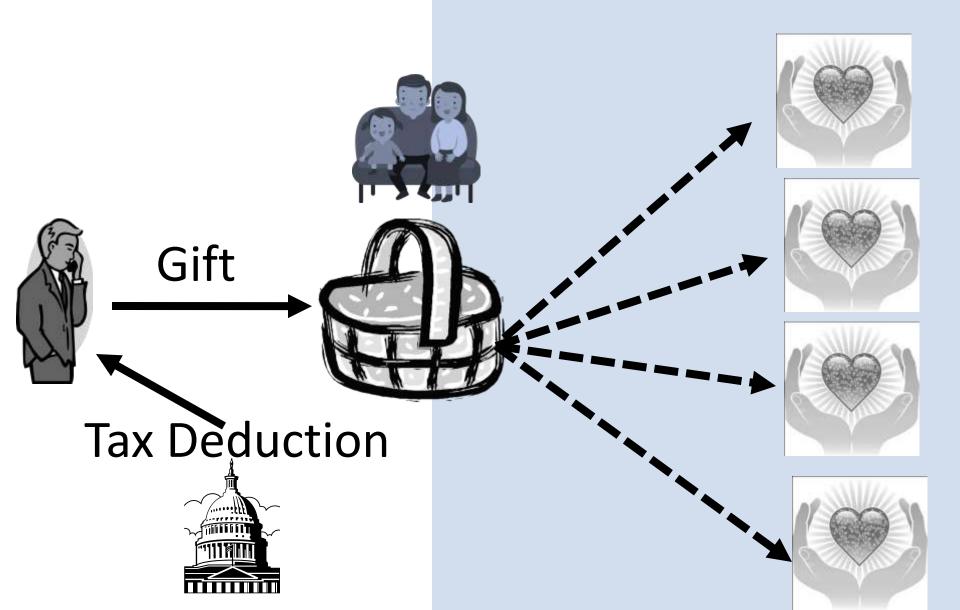
(Immediate tax deduction)

#### Later

(Distribute 5% or more assets per year)



### A private foundation may be managed by donor and donor's friends or family



#### Non-operating Private Foundations

(US in 2007)

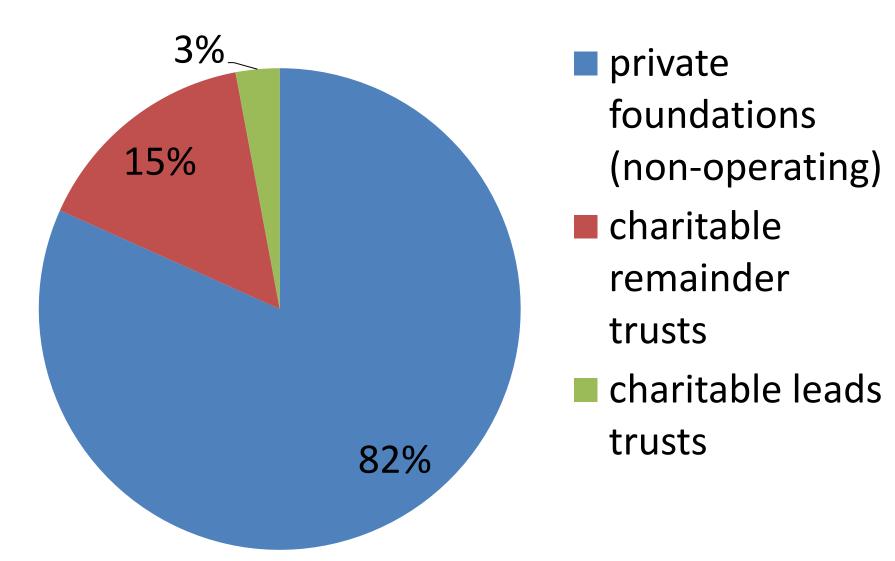
Total number: **77,457** 

Total assets: \$518,384,930,000

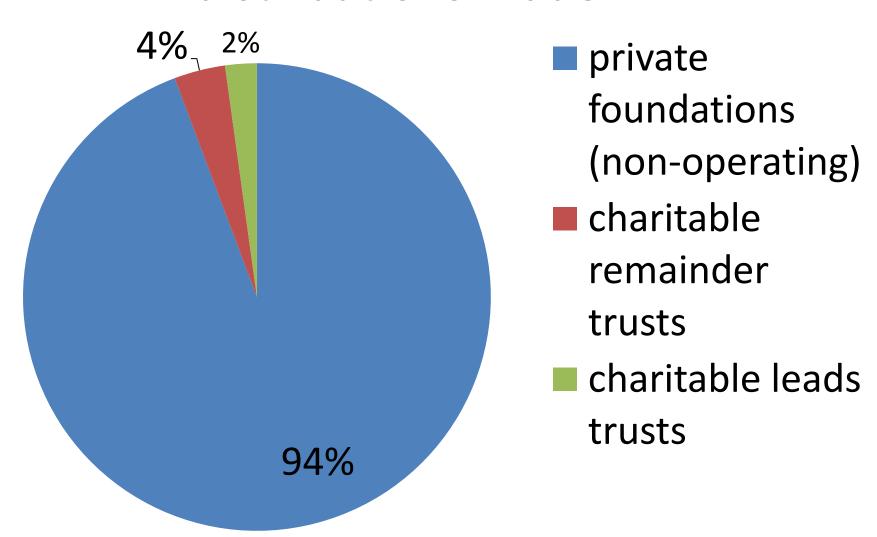
Annual charitable distributions: \$41,267,947,000

Annual share of assets to charity: 7.96%

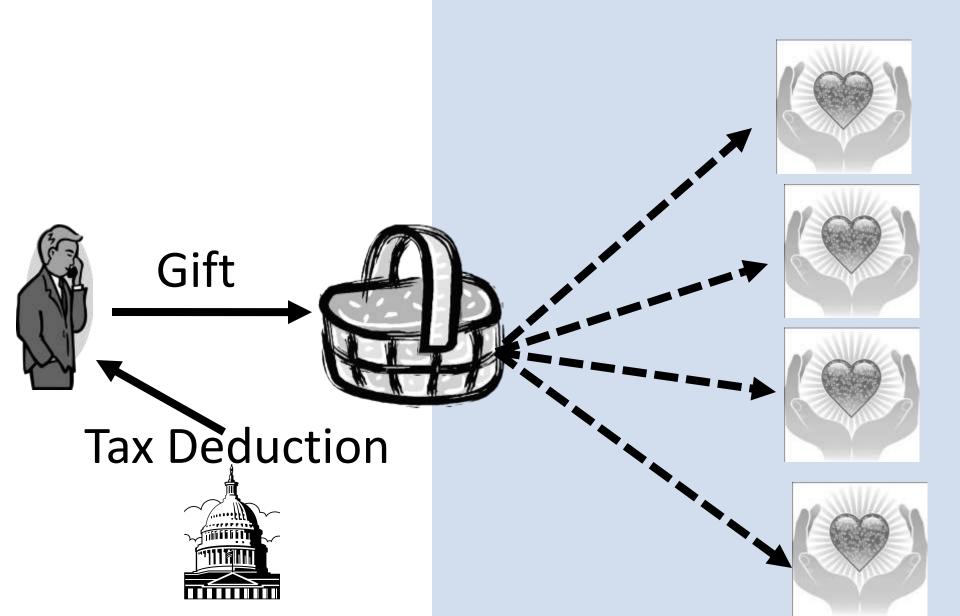
#### Comparative share of total assets held



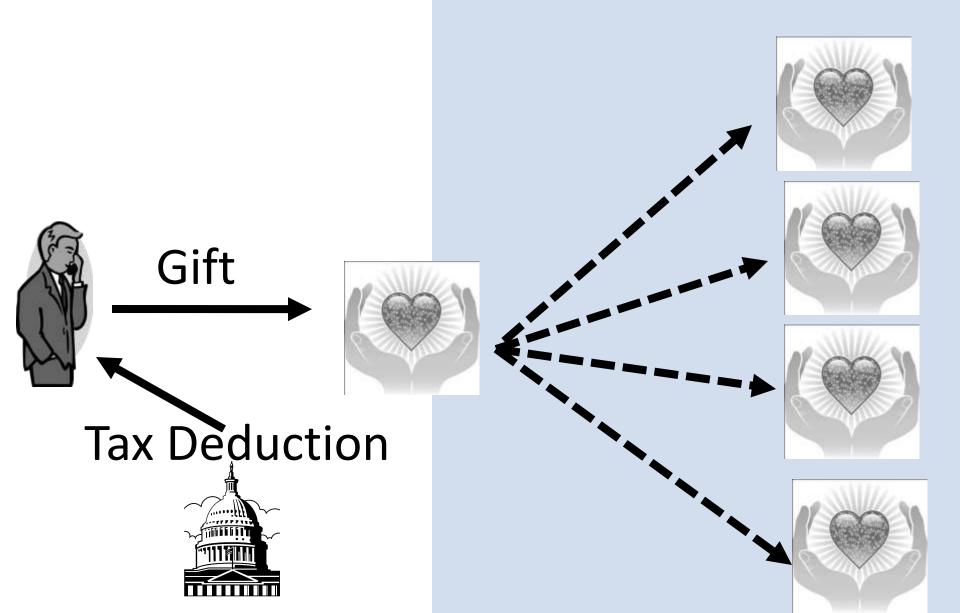
## Comparative share of charitable distributions made



### A private foundation is created by the donor and follows his rules



# A donor advised fund is held by a charity to give to other charities with donor's advice



### Private Foundation (non-operating)

- Contributions receive immediate tax deduction
- Money held by foundation
- Money later given to other charities based on board decision and donor's original rules
- Some expense to create and maintain

Average size \$6,692,551

#### **Donor advised fund**

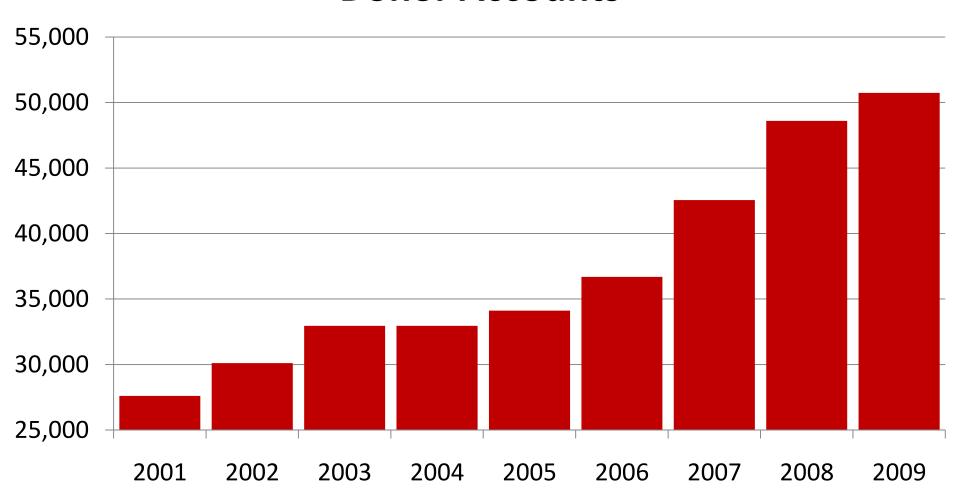
- Contributions receive immediate tax deduction
- Money held by a charity
- Money later given to other charities on advice of donor
- Very little expense to create and maintain (.5% annually)
- Average size \$200,000

#### New Era in DAFs

- 1991 first mutual fund DAF (Fidelity)
- Investment advisors earn commissions for managing client's assets in the DAF, thus have financial incentive for charitable planning
- Minimum initial contribution \$5,000
- Largest mutual fund DAFs
  - 1. Fidelity
  - 2. Schwab
  - 3. Vanguard

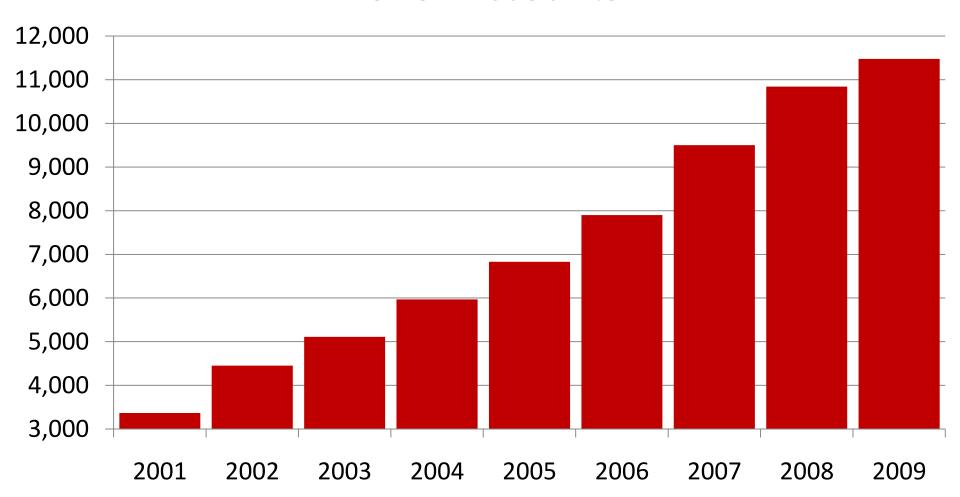
# Donor Advised Funds: Fidelity

#### **Donor Accounts**



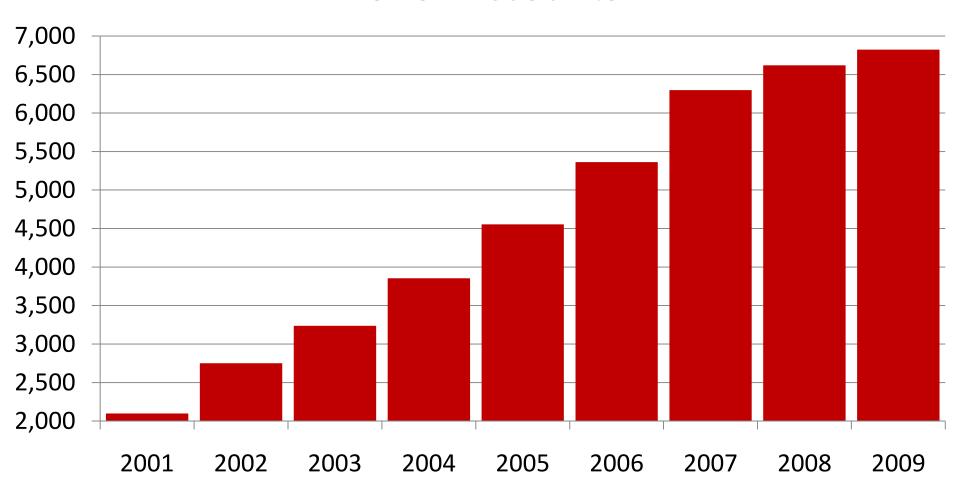
### Donor Advised Funds: Schwab

#### **Donor Accounts**



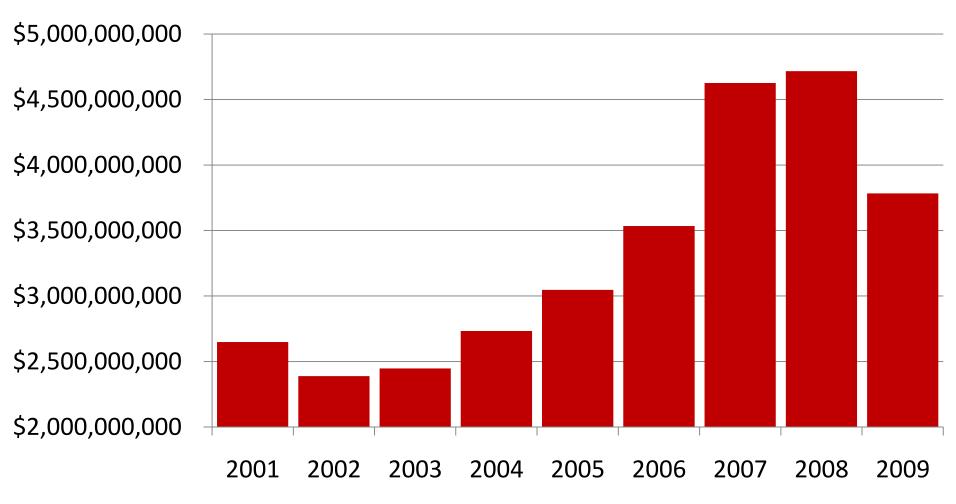
## Donor Advised Funds: Vanguard

#### **Donor Accounts**



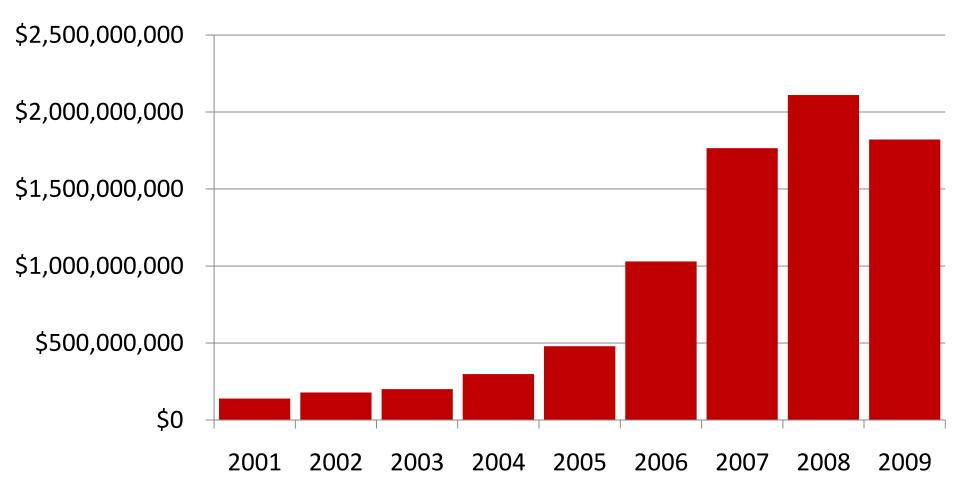
## Donor Advised Funds: Fidelity





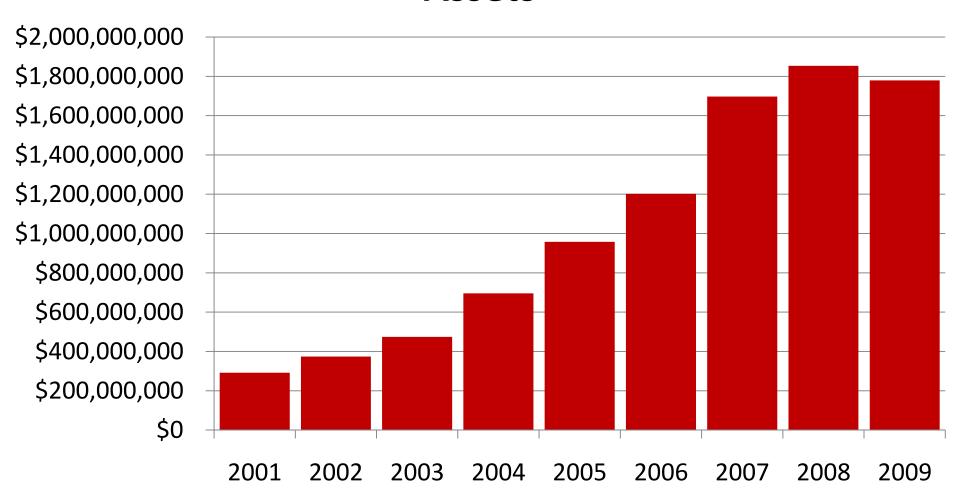
### Donor Advised Funds: Schwab





### Donor Advised Funds: Vanguard

#### **Assets**



# Donor Advised Funds Charitable Distributions

Charitable distribution averages for mutual fund DAFs (2001-2009)

- Fidelity: 25.3%
- Schwab: 19.0%
- Vanguard: 21.9%

Compare distribution averages (2007)

- Charitable Remainder Trusts 1.6%
- Charitable Leads Trusts 5.1%
- Private Foundations 8.0%

### **Donor Advised Funds**

(US in 2007)

Total number: 122,500

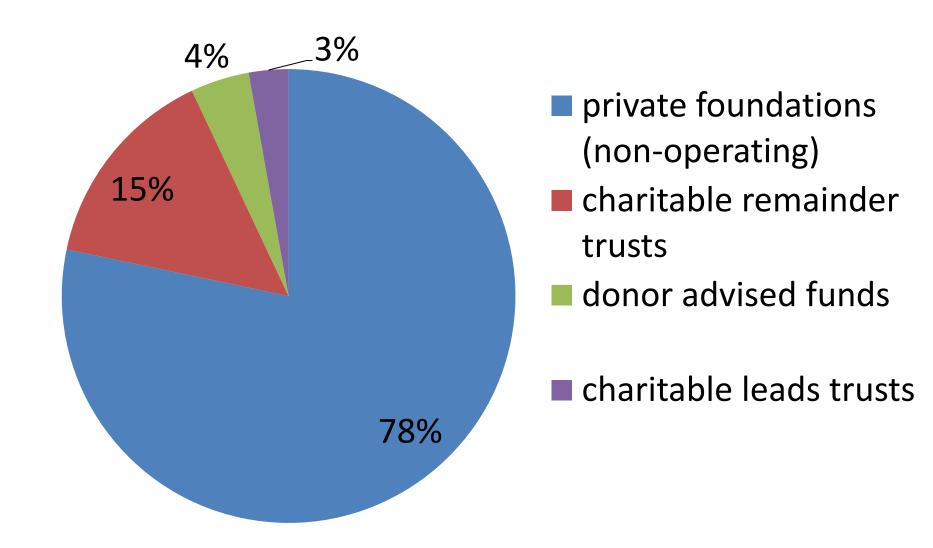
Total assets: \$27,700,000,000

Annual charitable distributions: \$5,877,940,000°

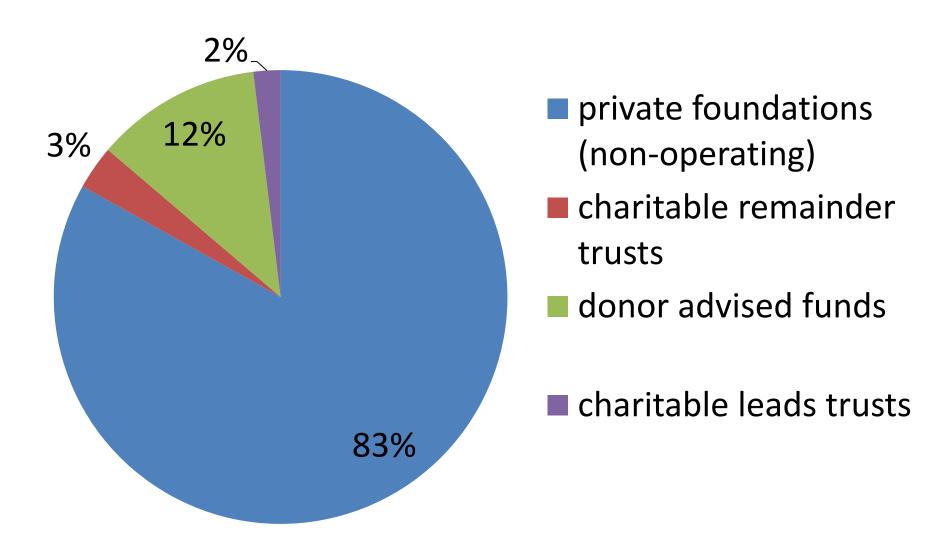
Annual share of assets to charity: 21.22%<sup>b</sup>

<sup>&</sup>lt;sup>a</sup> Source: National Philanthropic Trust; <sup>b</sup>Weighted estimate from three largest DAFs and 19.36% reported for community foundation DAFs by Council on Foundations survey including \$8.7 billion in assets

# Comparative share of total assets held



# Comparative share of charitable distributions made



# Planned Giving Overview

Overview and Magnitude



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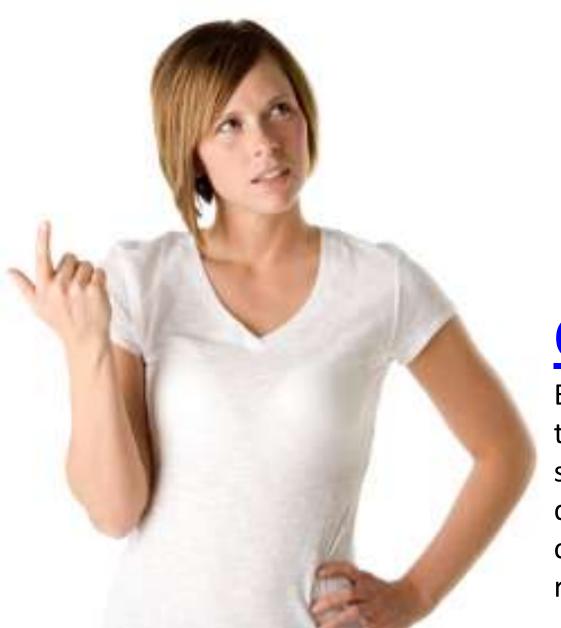
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