

# Planned Giving

## Overview and Magnitude



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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.

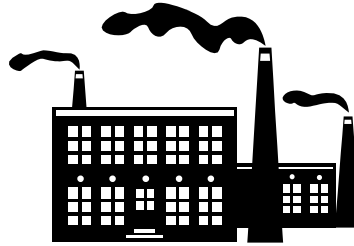
- 77,457 private foundations holding \$518 billion
- 123,659 charitable trusts holding \$115 billion
- 122,500 donor advised funds holding \$28 billion
- 120,000 charitable bequests annually \$23 billion

# Planned giving: The characters

The employee



The company



The charity

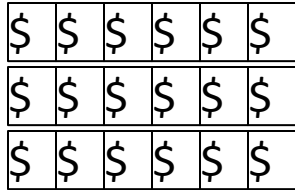


The government

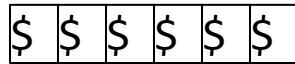


# Employees pay income taxes

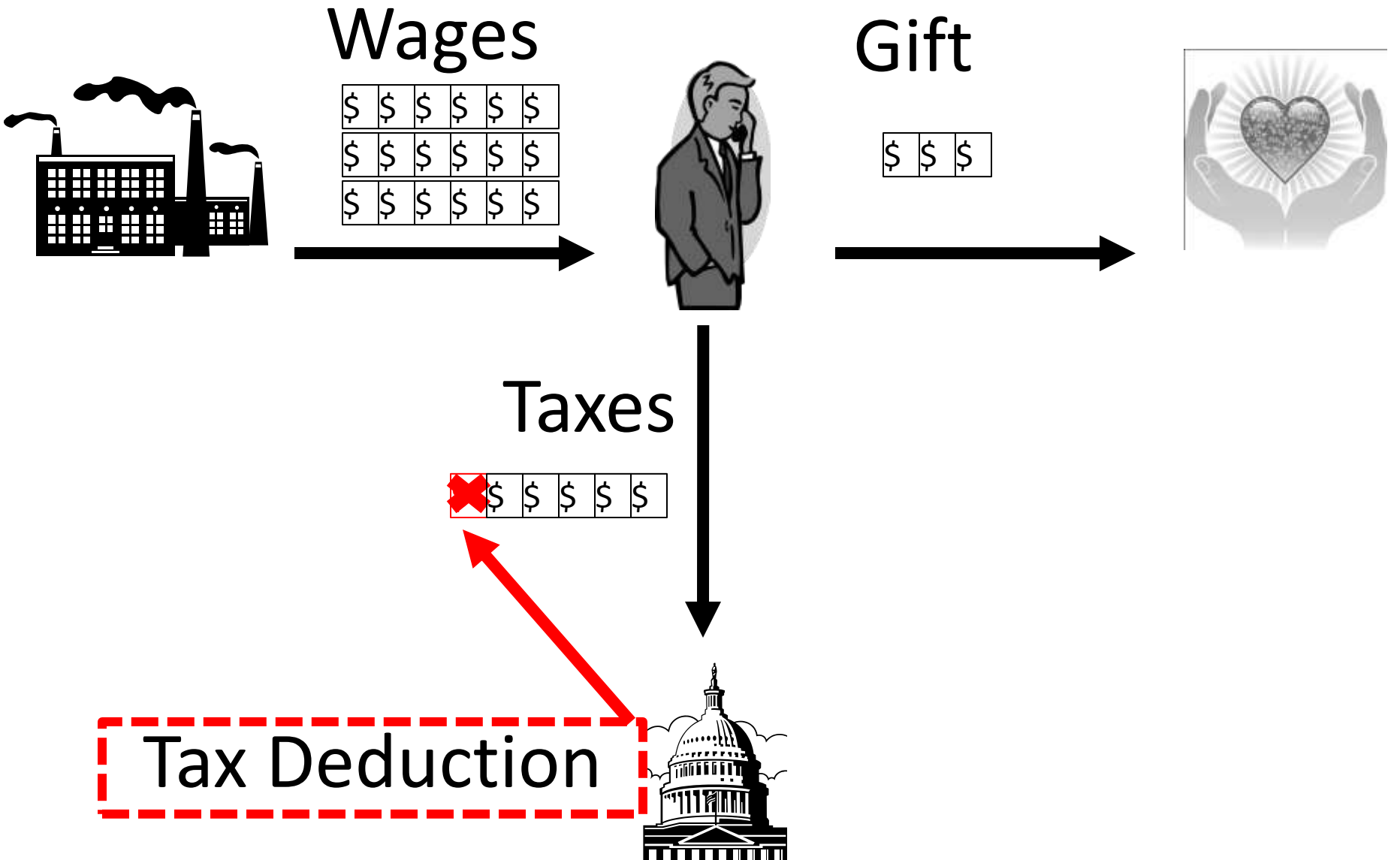
Wages



Taxes

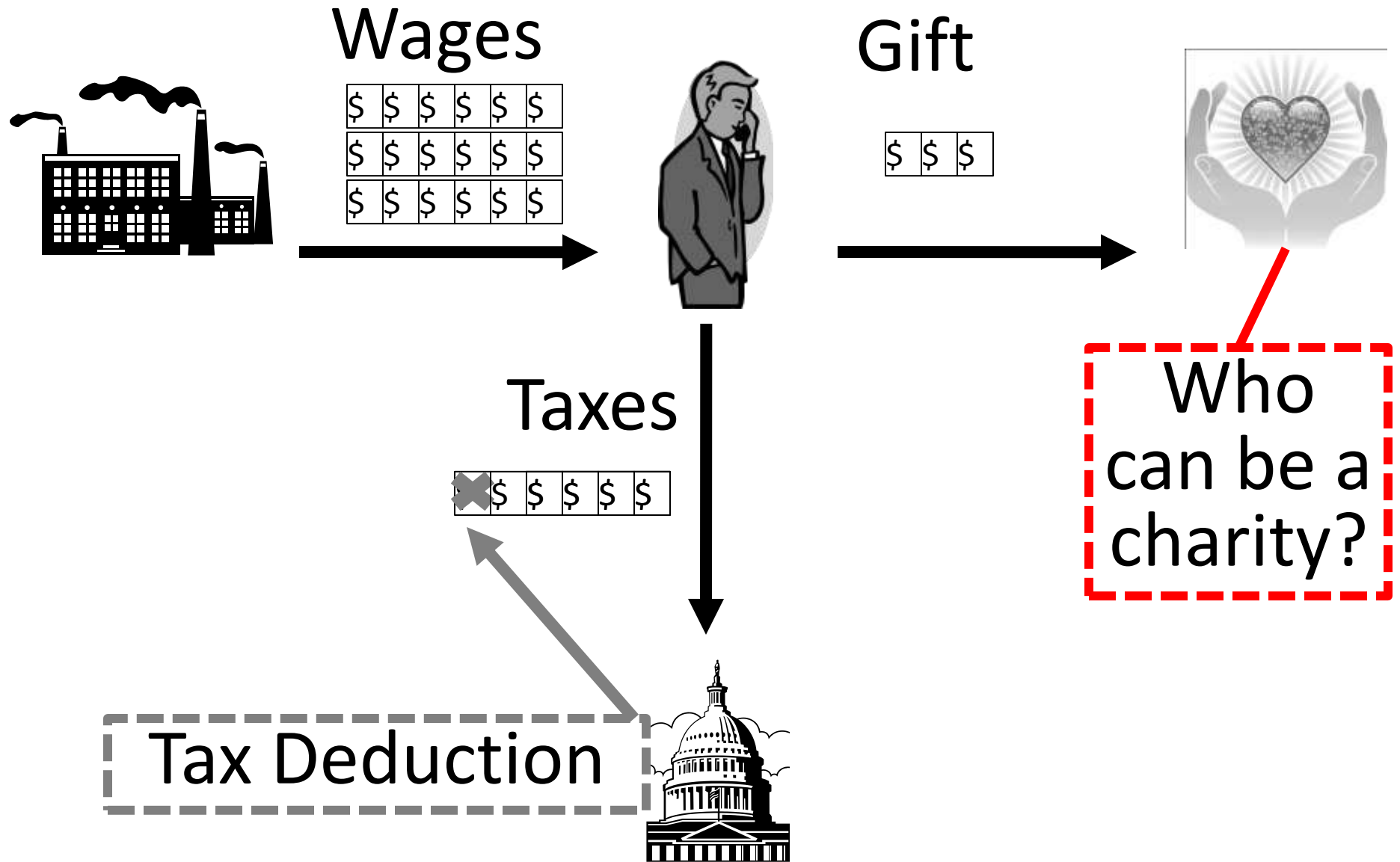


# Gifts to charity receive a tax deduction





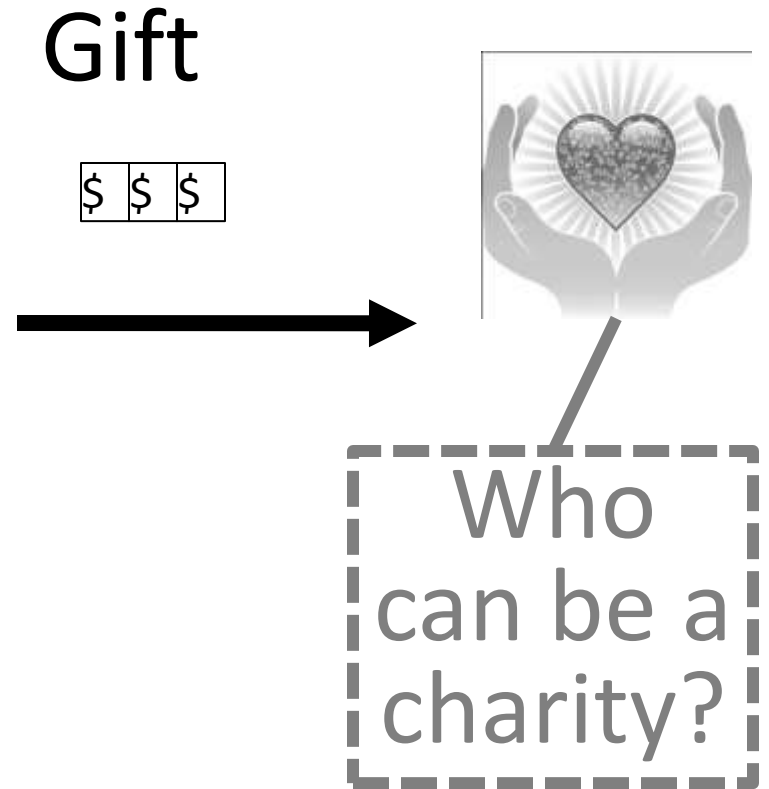
# The charity



# 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)\*



\*not required for churches

# Simple creation = More charities

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

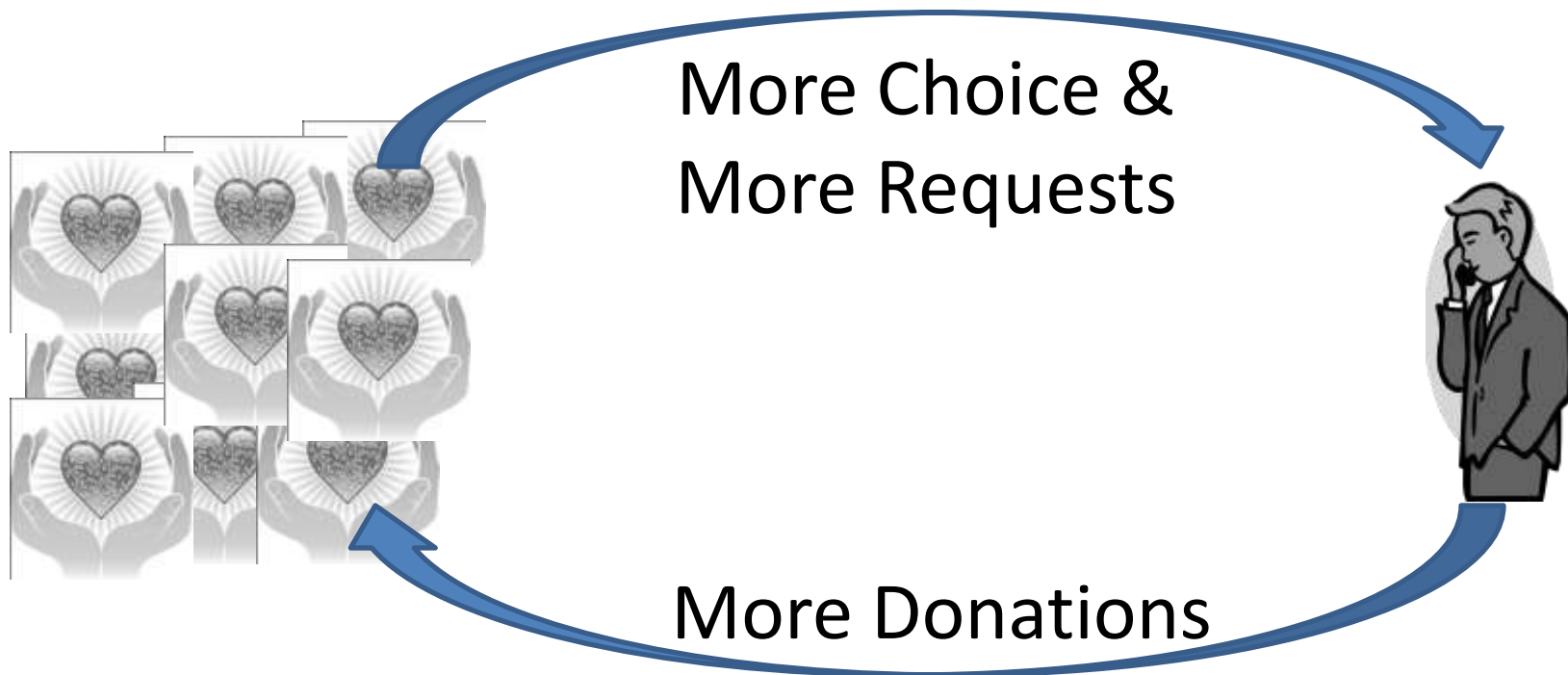
974,337

(Excludes all churches choosing not to file tax forms)

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

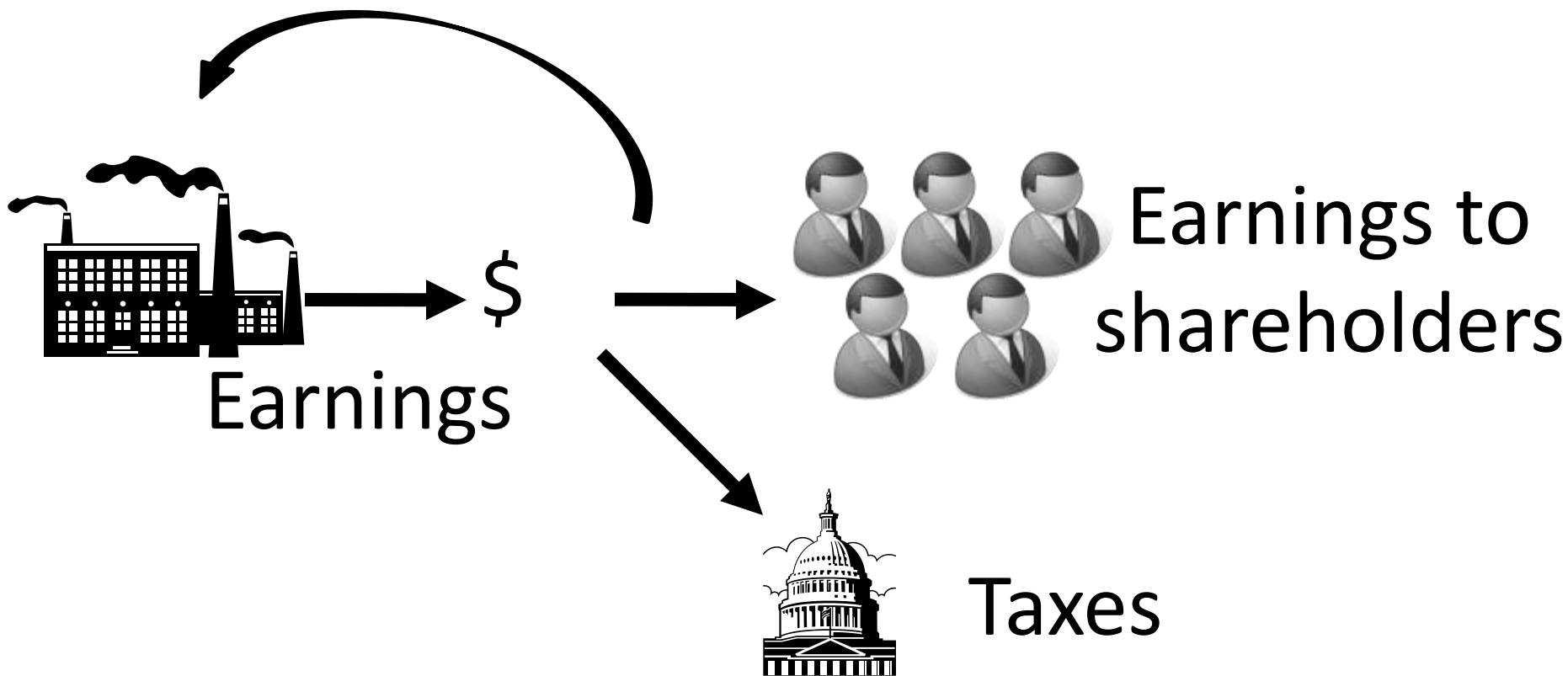
More Charities = More Donation Requests and  
More Donor Choice

More Choice & More Requests = More Giving



# Companies pay taxes and distribute some earnings

Reinvested earnings

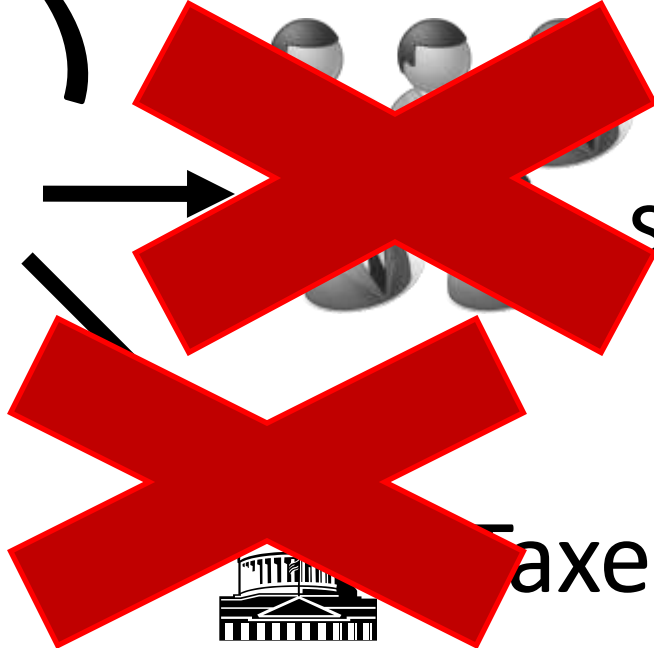


# Charities pay no taxes and distribute no earnings

Reinvested earnings



Earnings → \$



Earnings to shareholders



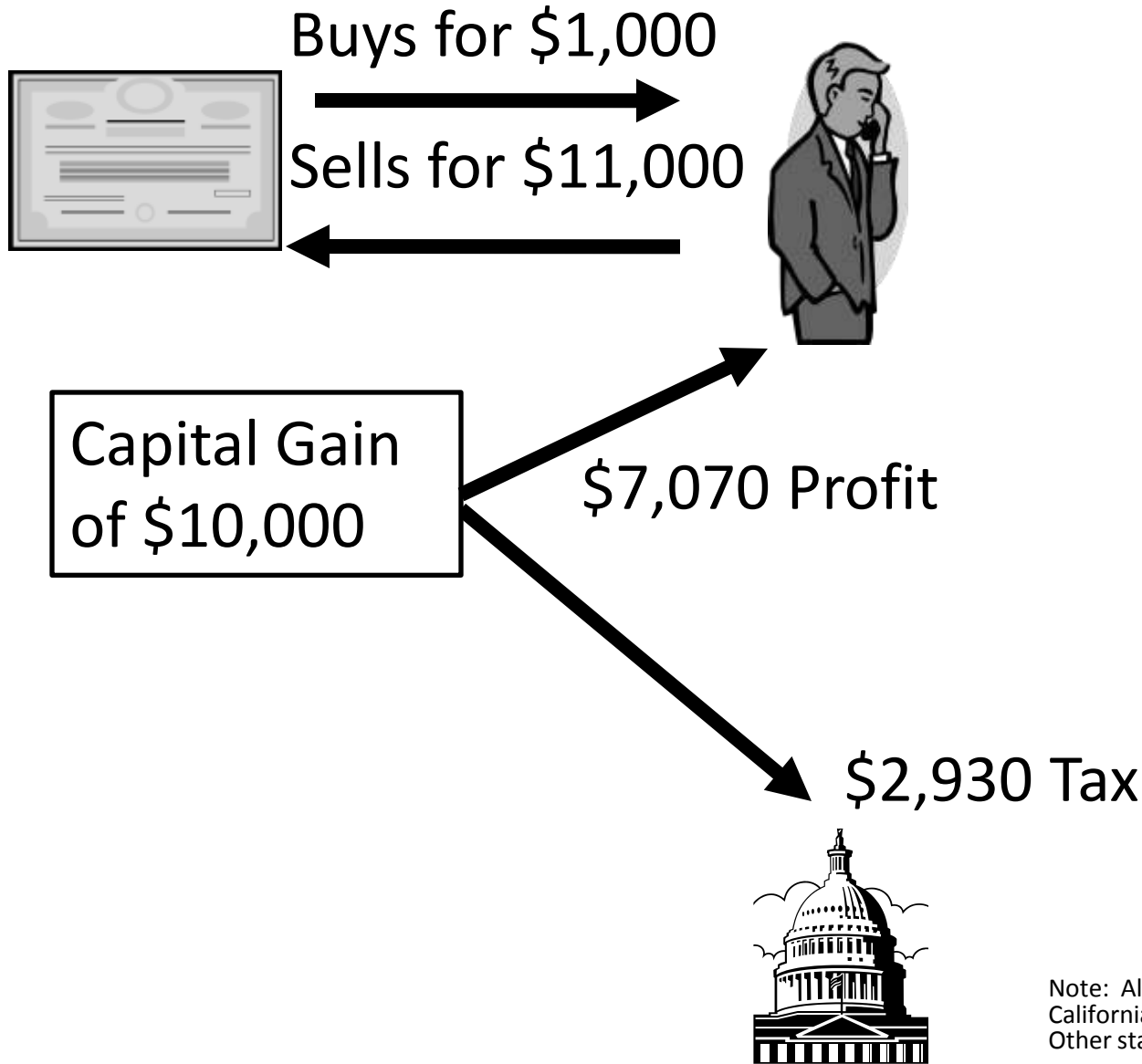
Taxes

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

Reinvested earnings



# 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

End of Life  
or Set Years

# Charitable Remainder Trust



Gift



Payments from  
income or assets



During Donor Life

End of Life

## Pooled Income Fund

Gifts



Payments from  
shared pool of  
income and assets



During Donor Life  
or Set Years

End of Life  
or Set Years



Gift



Charitable  
Lead Trust



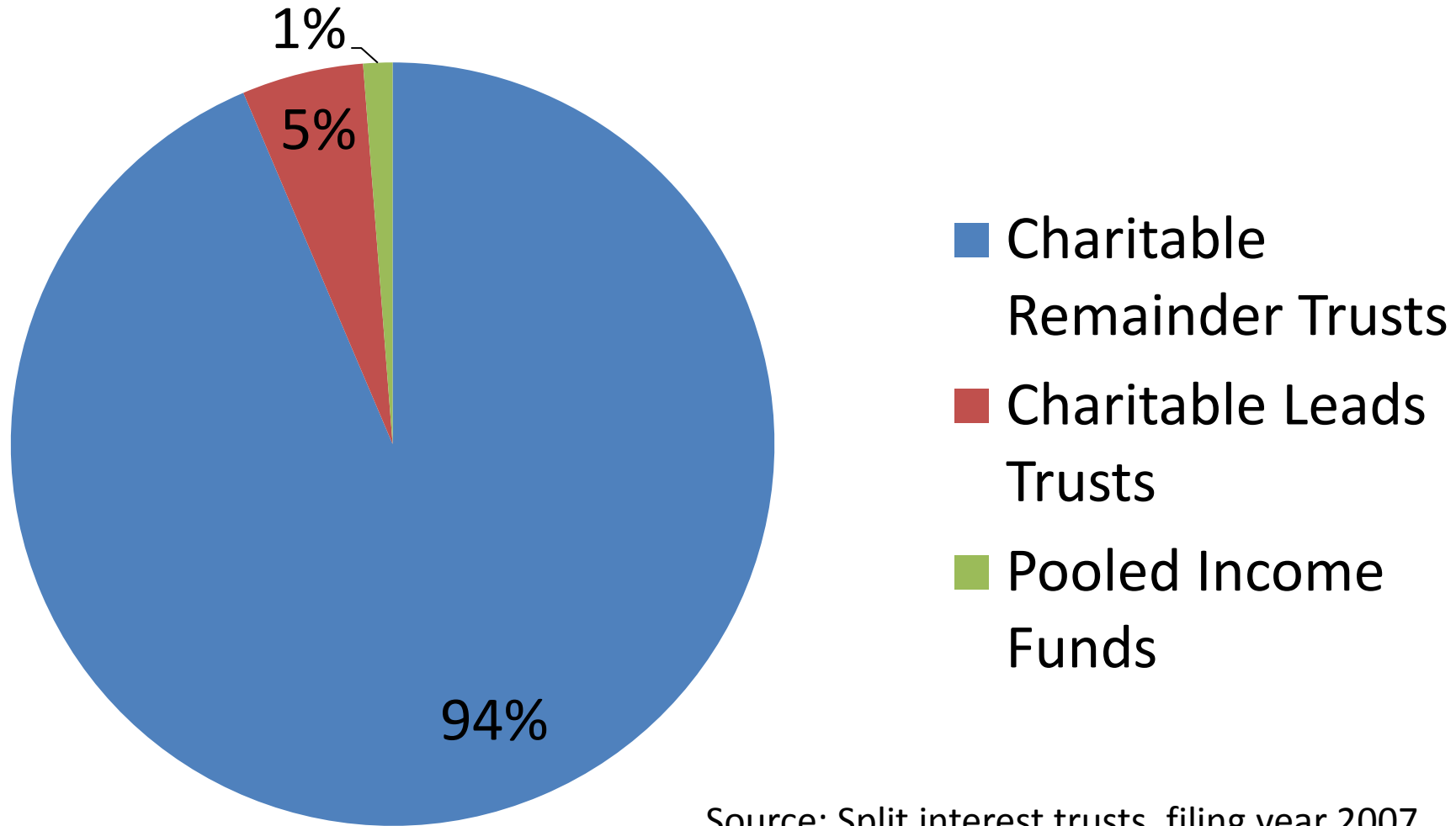
Donor's family



Payments from  
income or assets

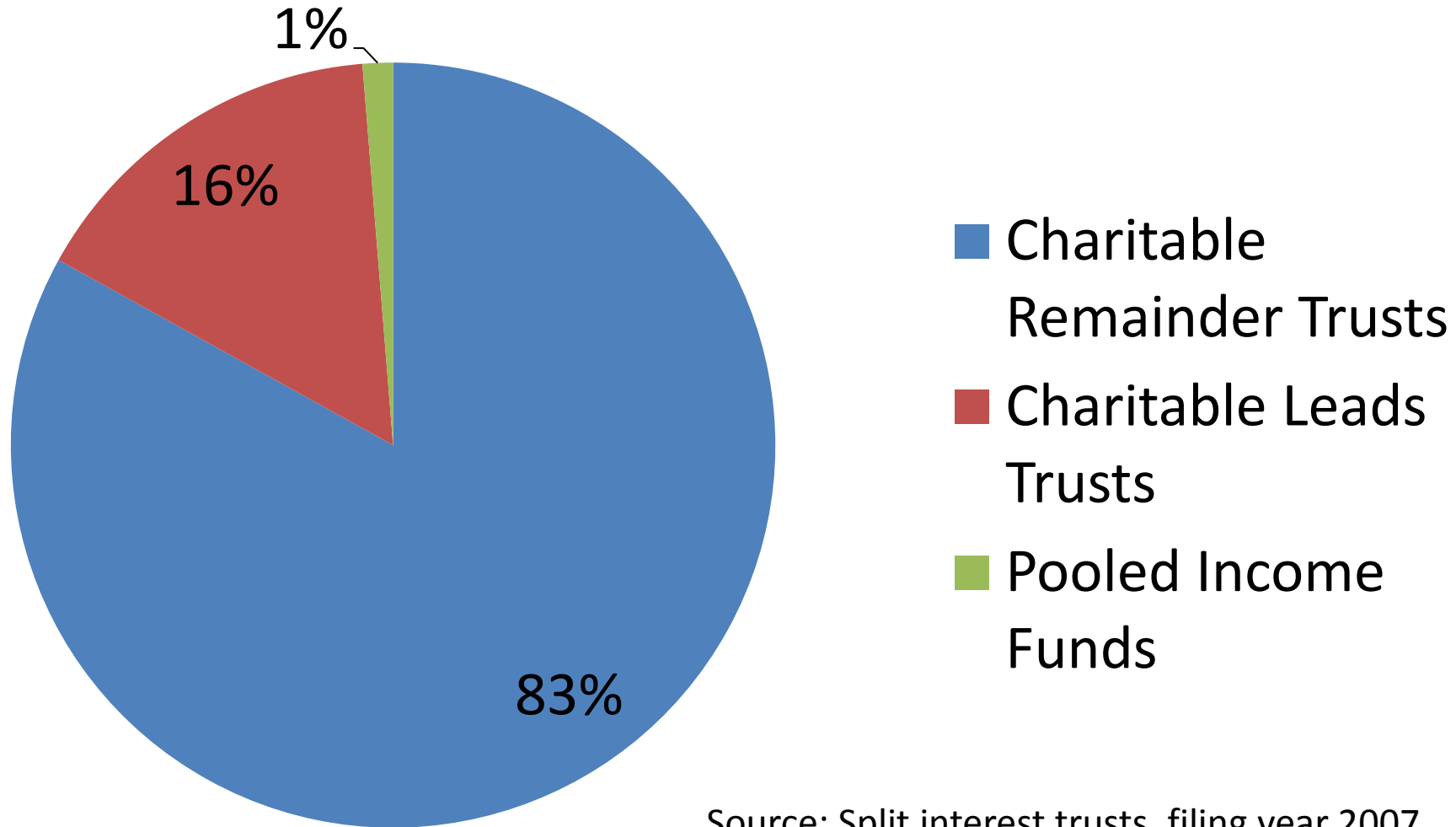


# Charitable trust types by number



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

# Charitable trust types by asset value



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



# 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%**

# 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%**

# 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%**

# Now

(Immediate tax deduction)

# Later

(Distribute 5% or more assets per year)

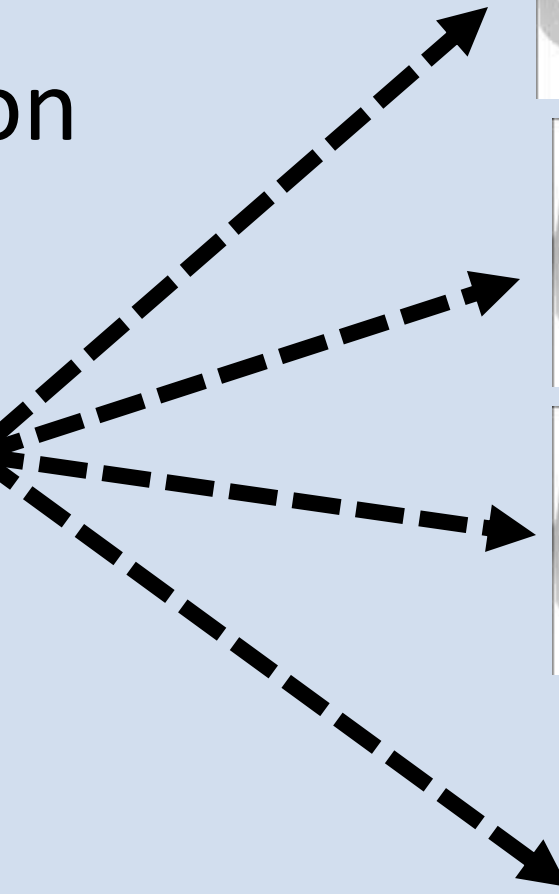
## Non-operating Private Foundation



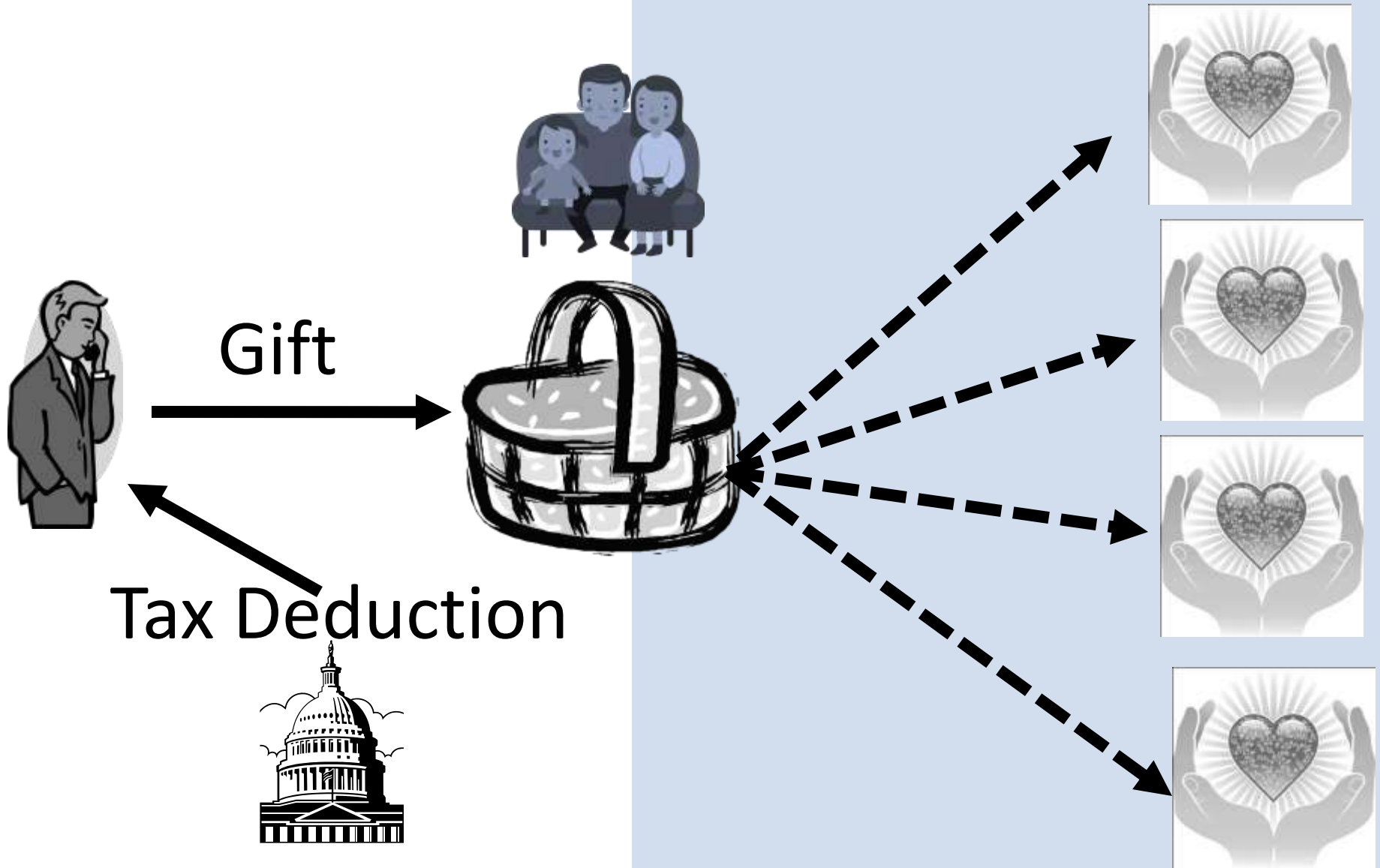
Gift



Tax Deduction



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



# Non-operating Private Foundations

(US in 2007)

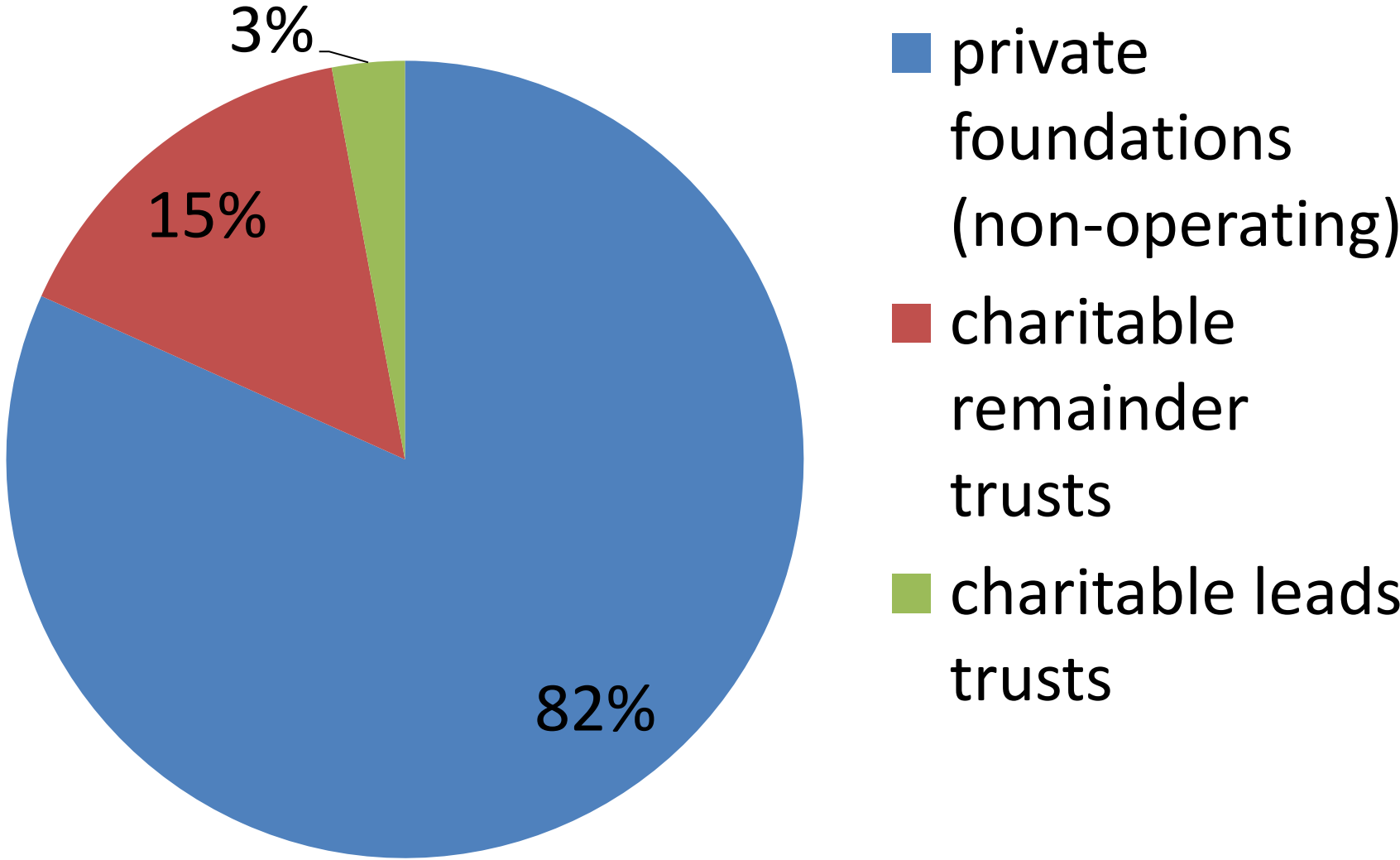
Total number: **77,457**

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

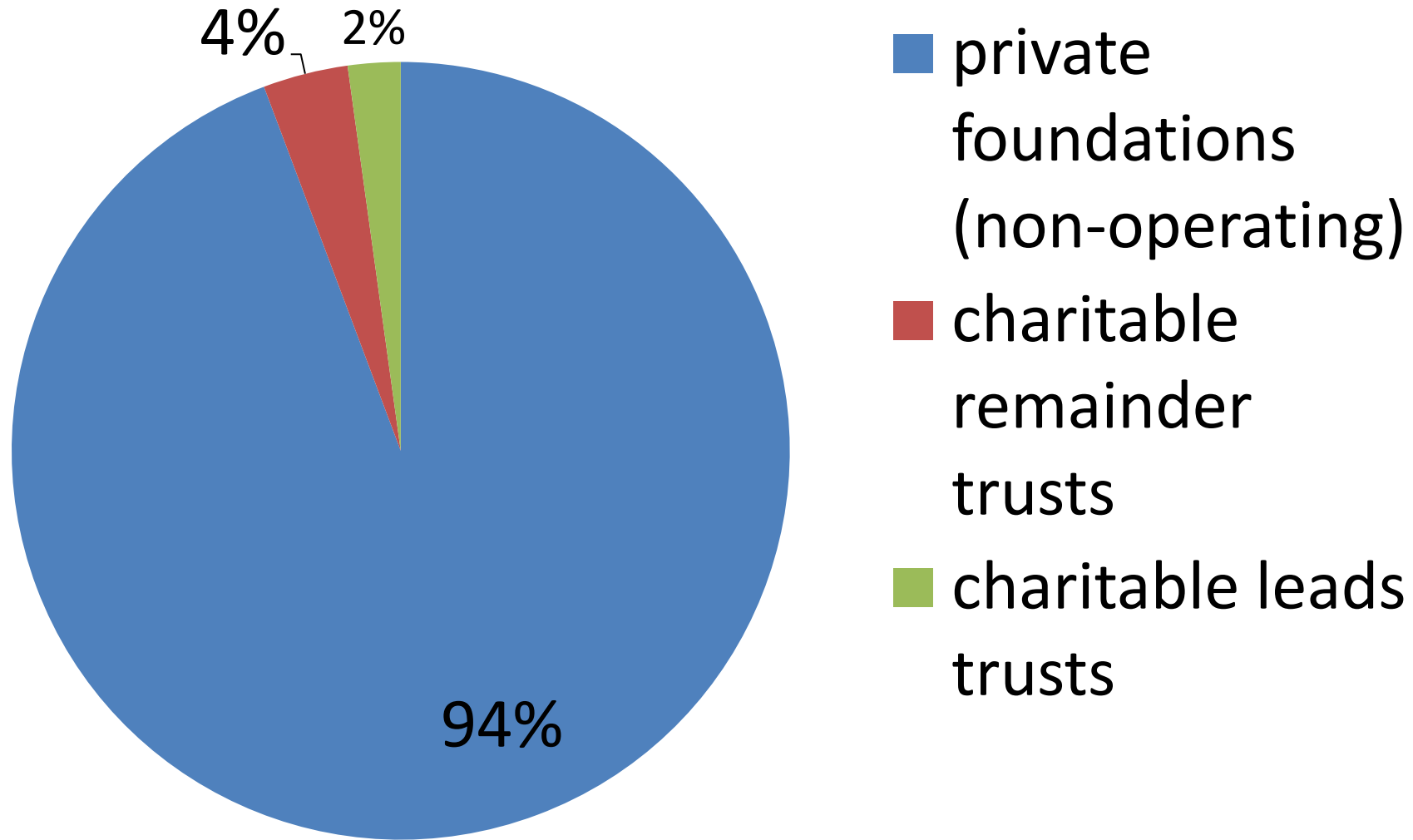
Annual charitable distributions: **\$41,267,947,000**

**Annual share of assets to charity: 7.96%**

# Comparative share of total assets held

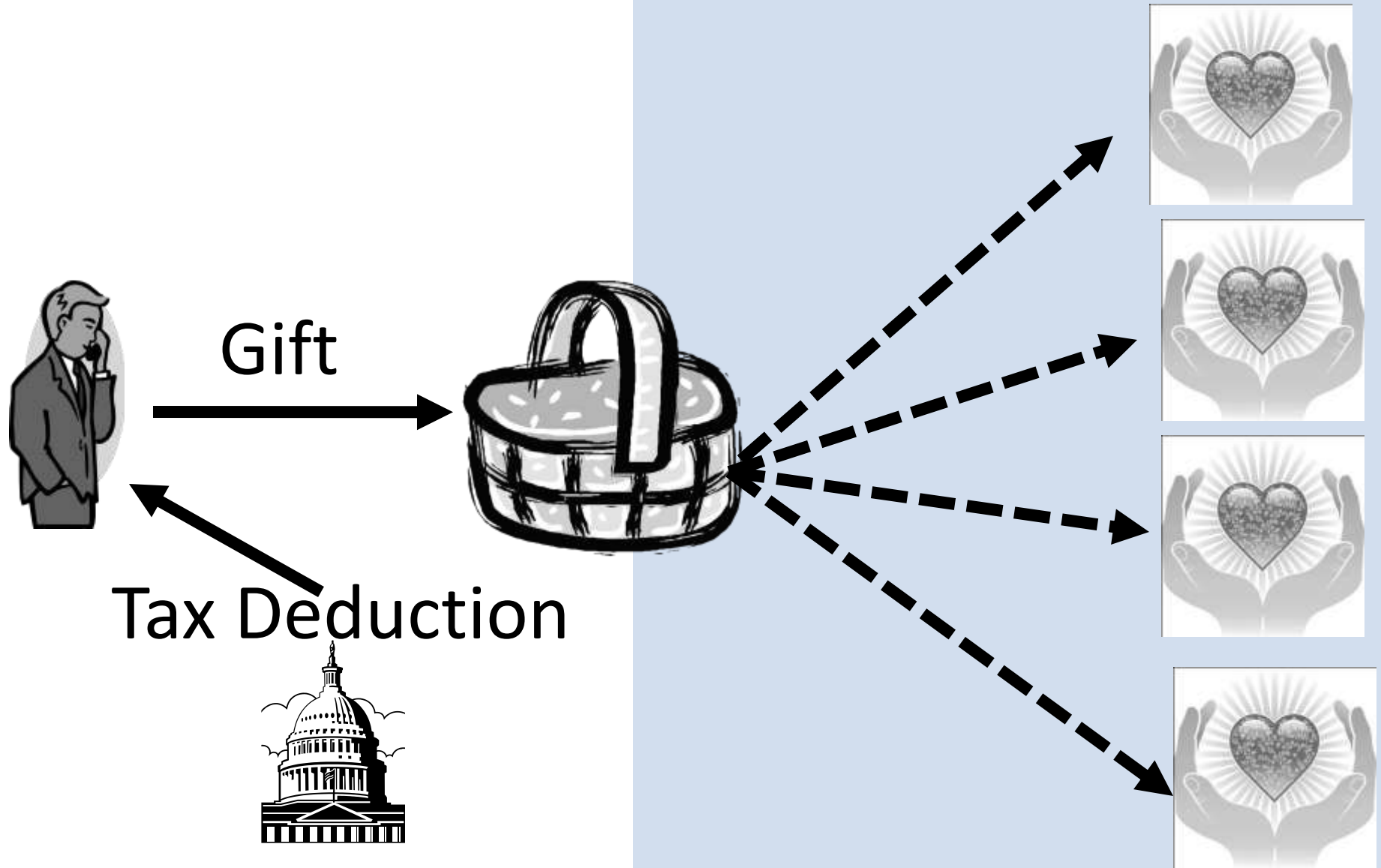


# Comparative share of charitable distributions made

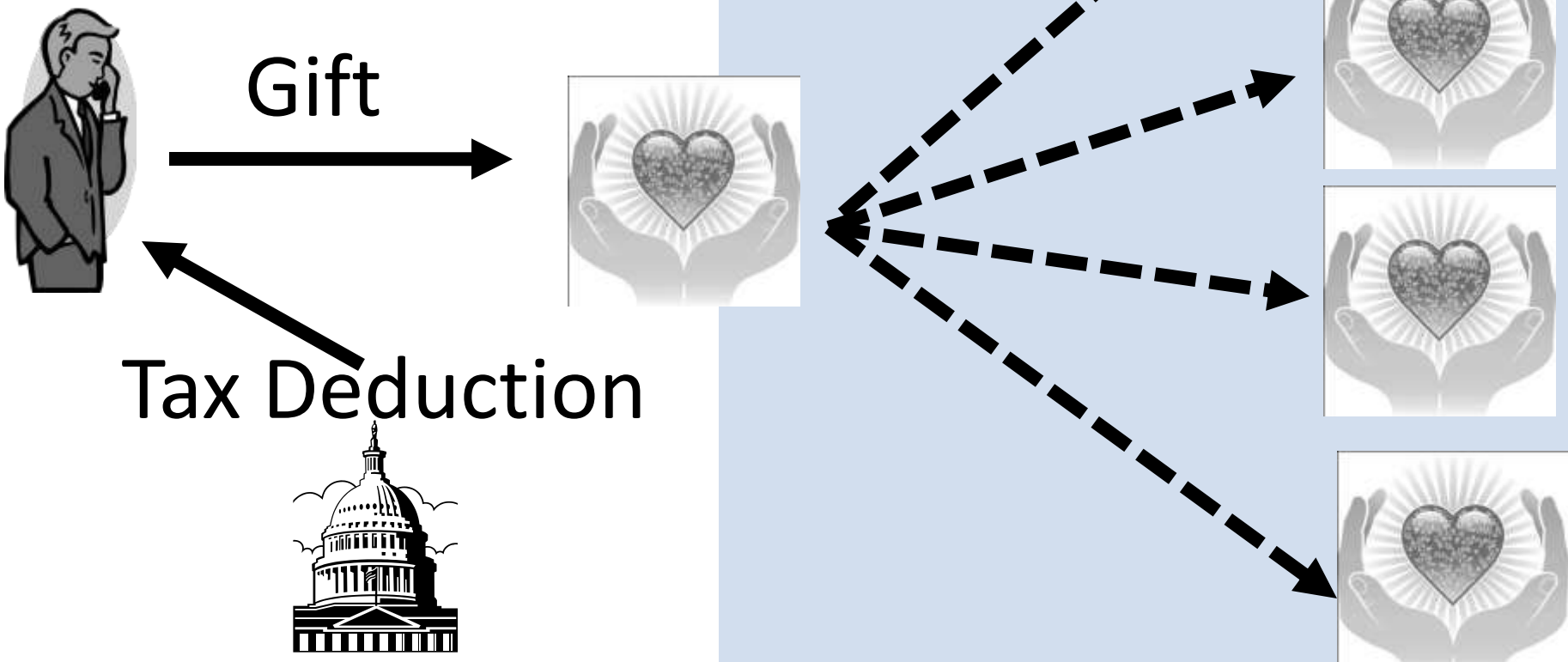




# A private foundation is created by the donor and follows his rules



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**

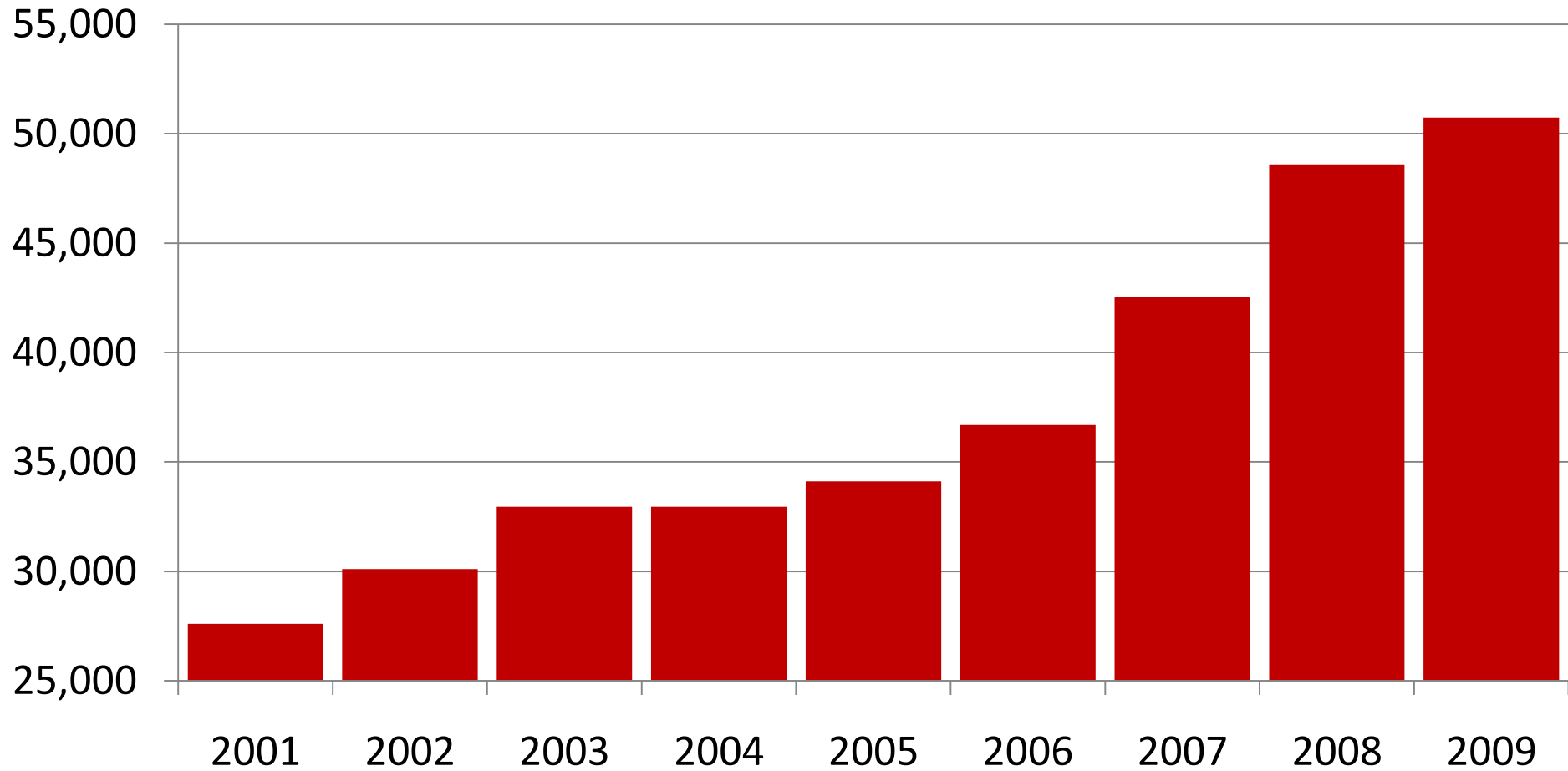
- Contributions receive immediate tax deduction
- Money held by a charity
- Money later given to other charities on advice of donor
- Very little expense to create and maintain (.5% annually)
- Average size \$200,000

# 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

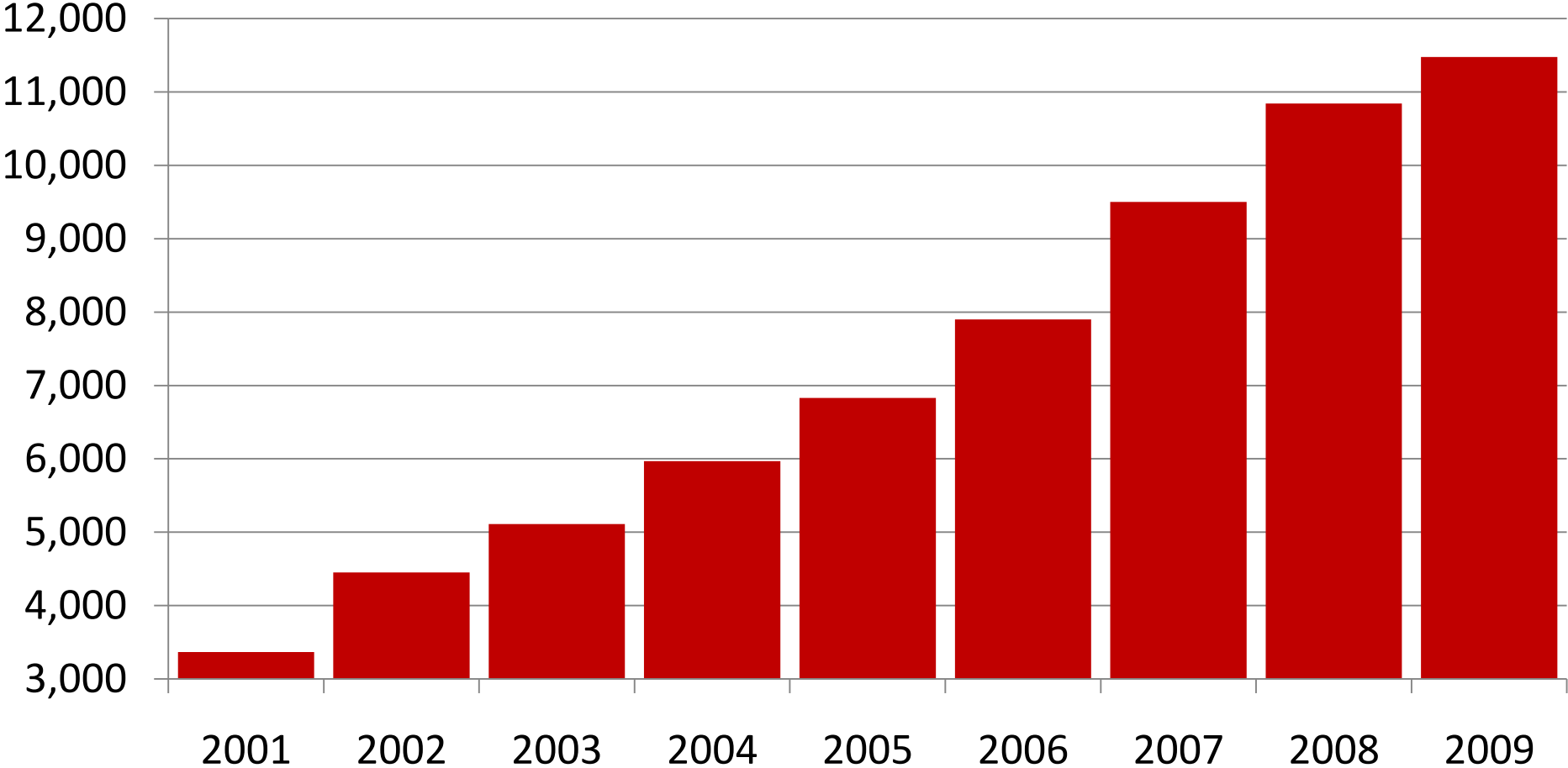
## Donor Accounts



Source: Chronicle of Philanthropy

# Donor Advised Funds: Schwab

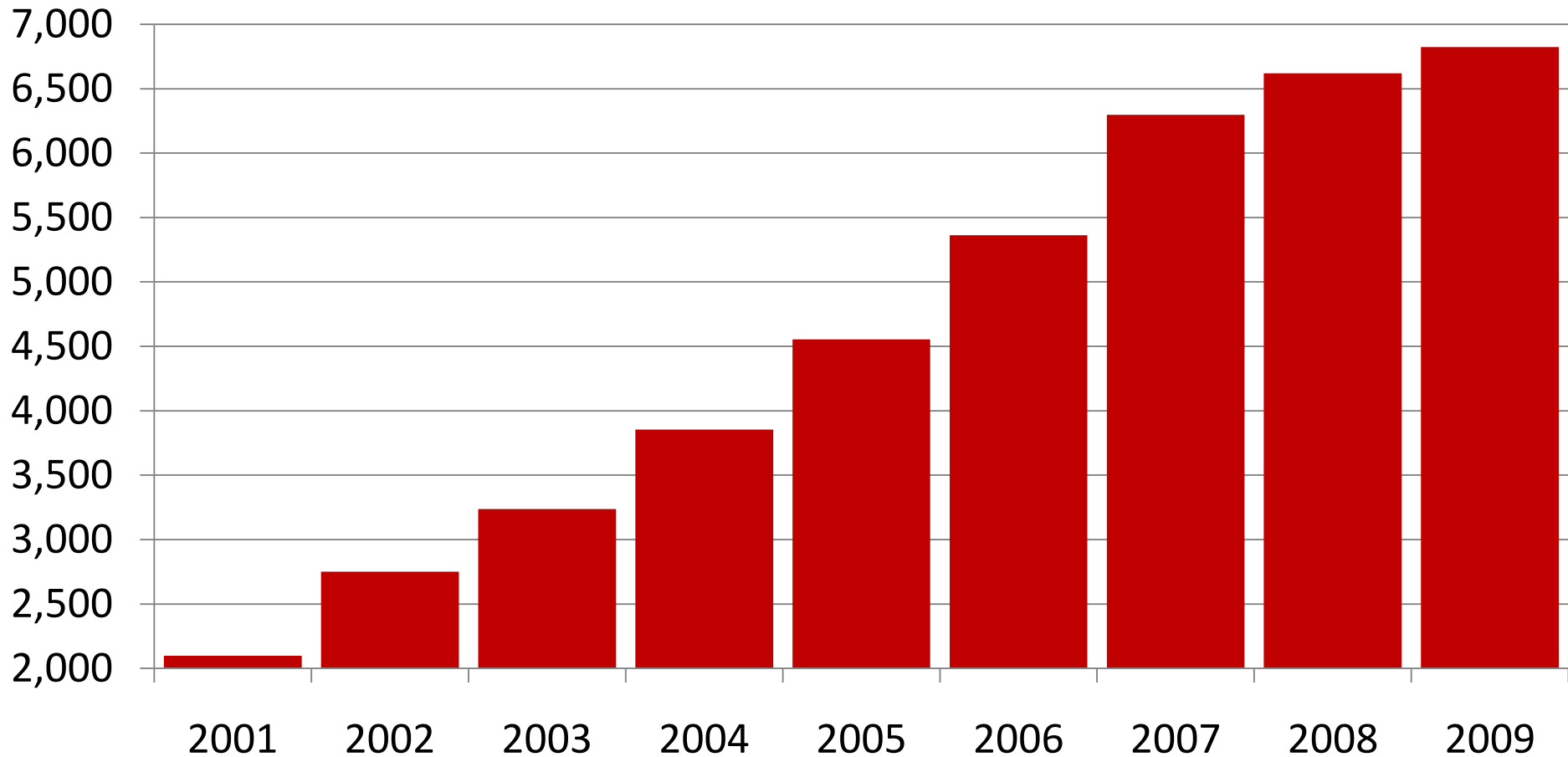
## Donor Accounts



Source: Chronicle of Philanthropy

# Donor Advised Funds: Vanguard

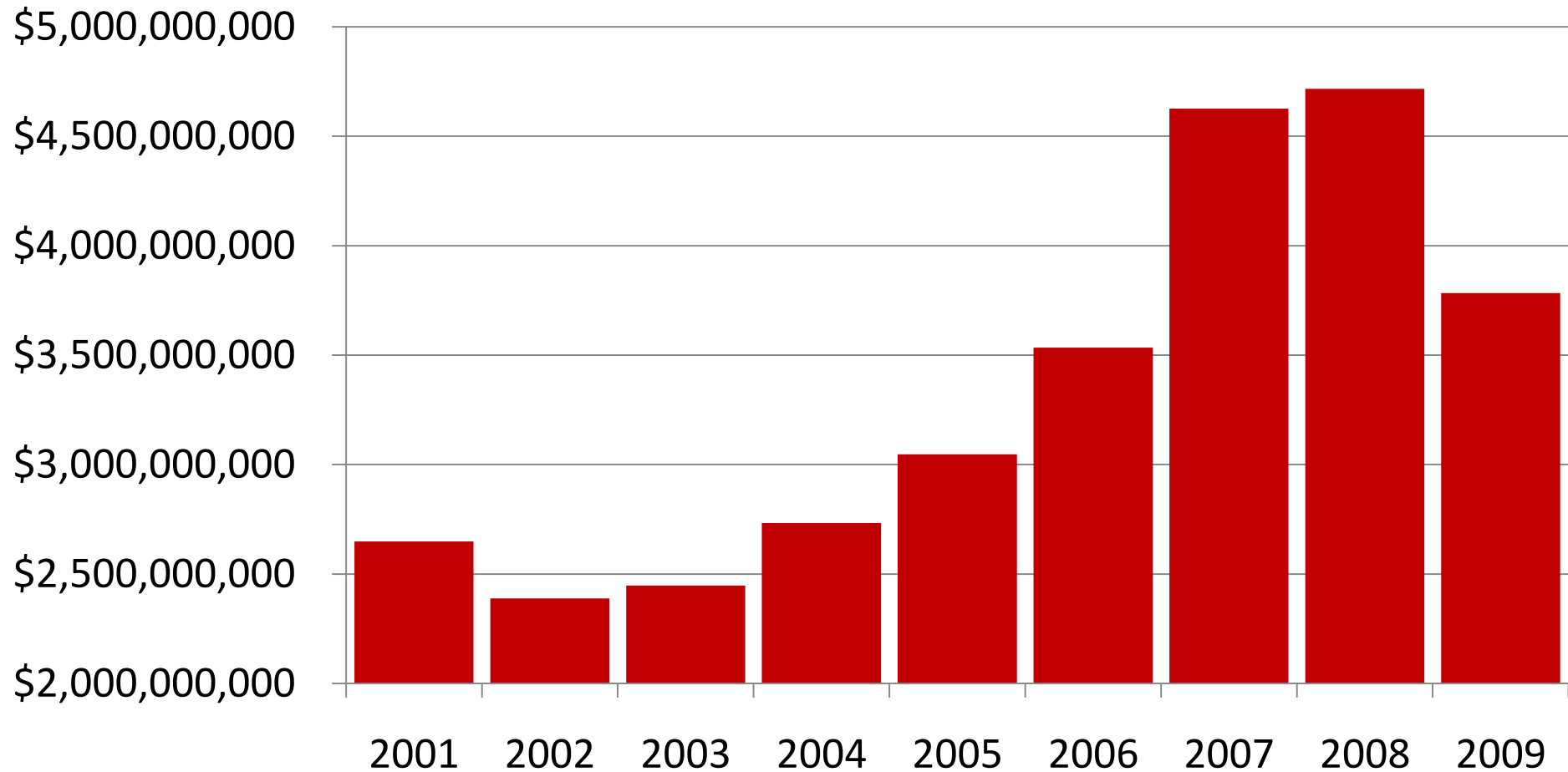
## Donor Accounts



Source: Chronicle of Philanthropy

# Donor Advised Funds: Fidelity

## Assets

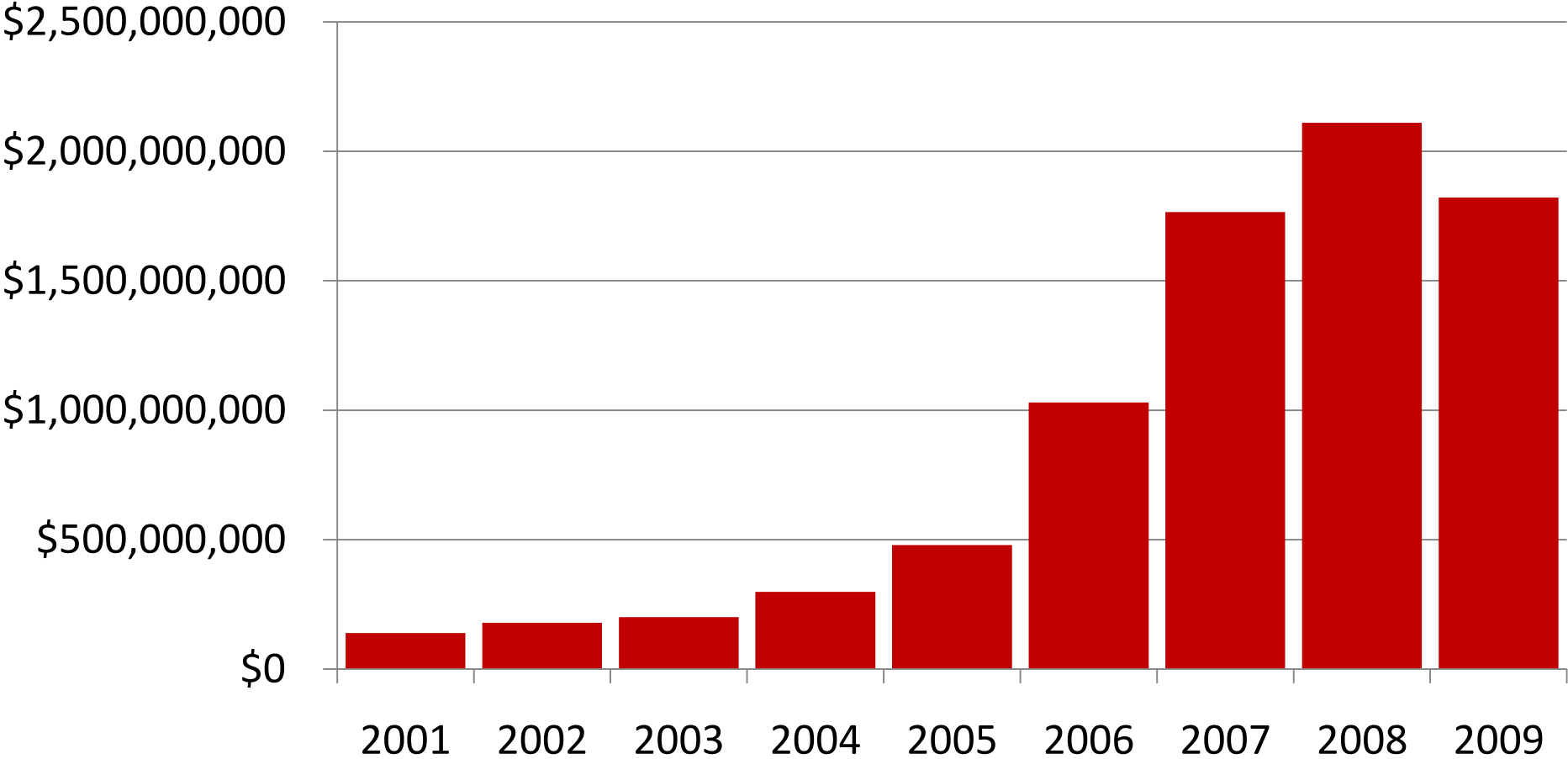


Source: Chronicle of Philanthropy



# Donor Advised Funds: Schwab

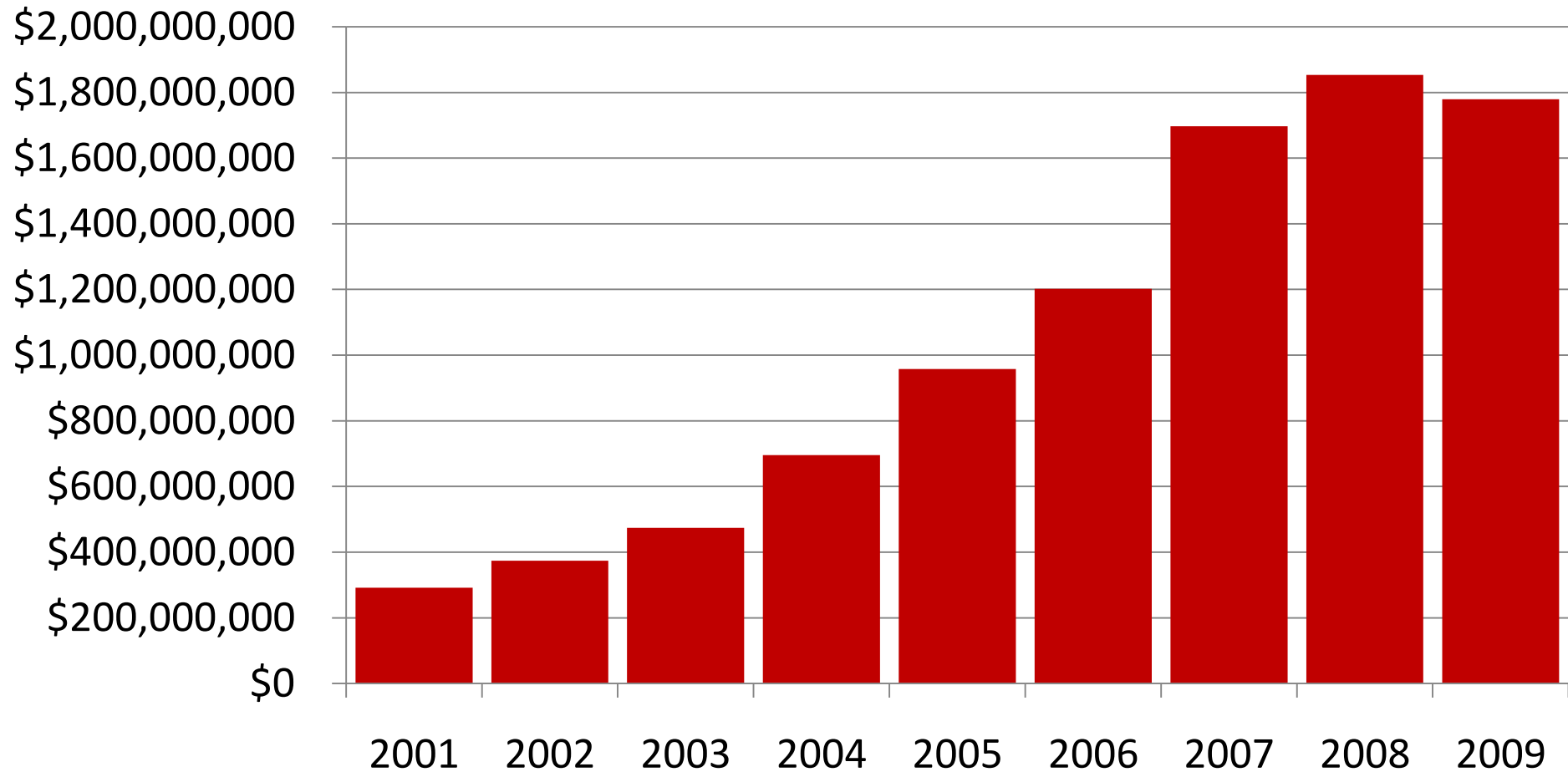
## Assets



Source: Chronicle of Philanthropy

# Donor Advised Funds: Vanguard

## Assets



Source: Chronicle of Philanthropy

# 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

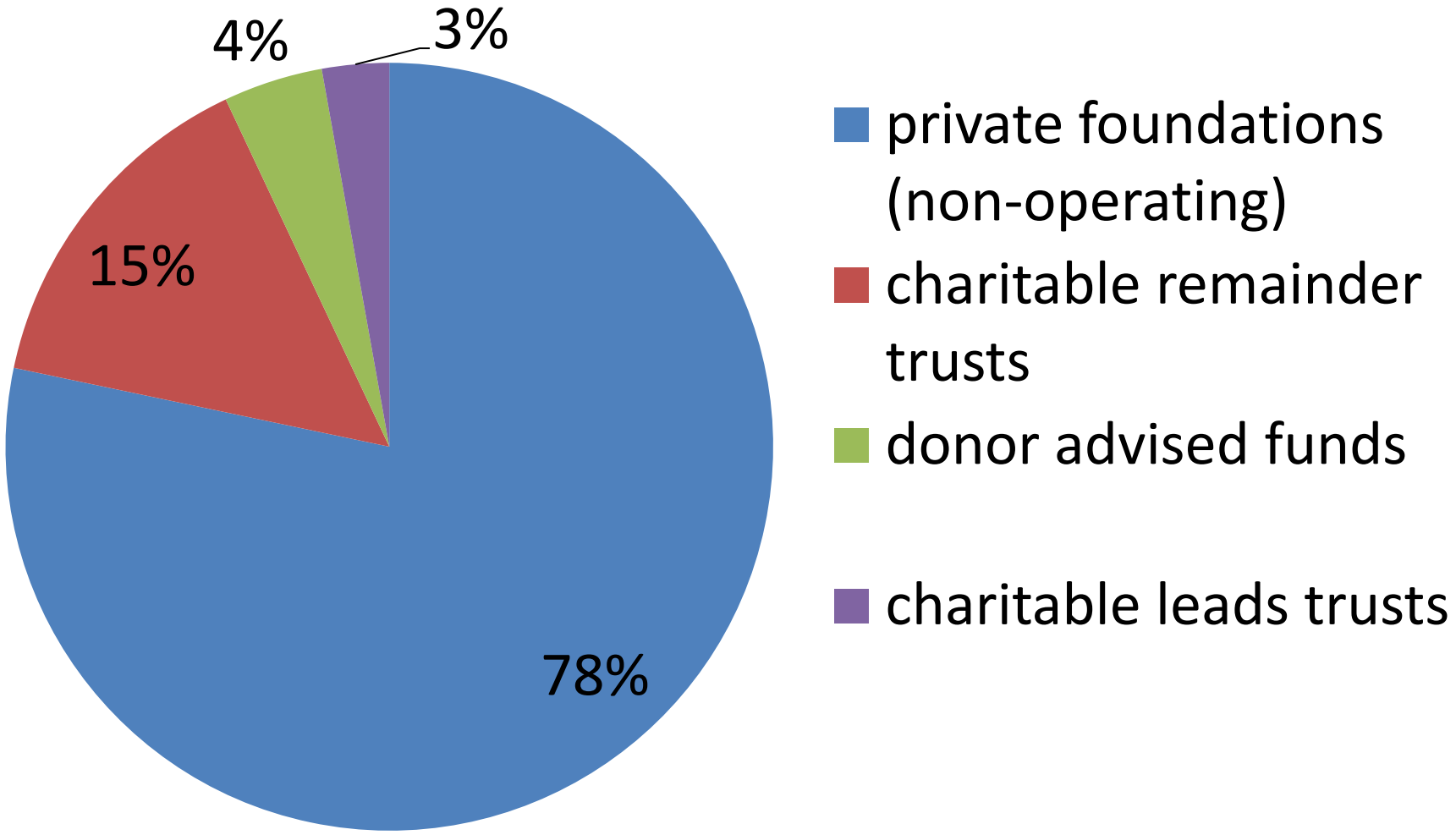
Total assets: \$27,700,000,000<sup>a</sup>

Annual charitable distributions: \$5,877,940,000<sup>b</sup>

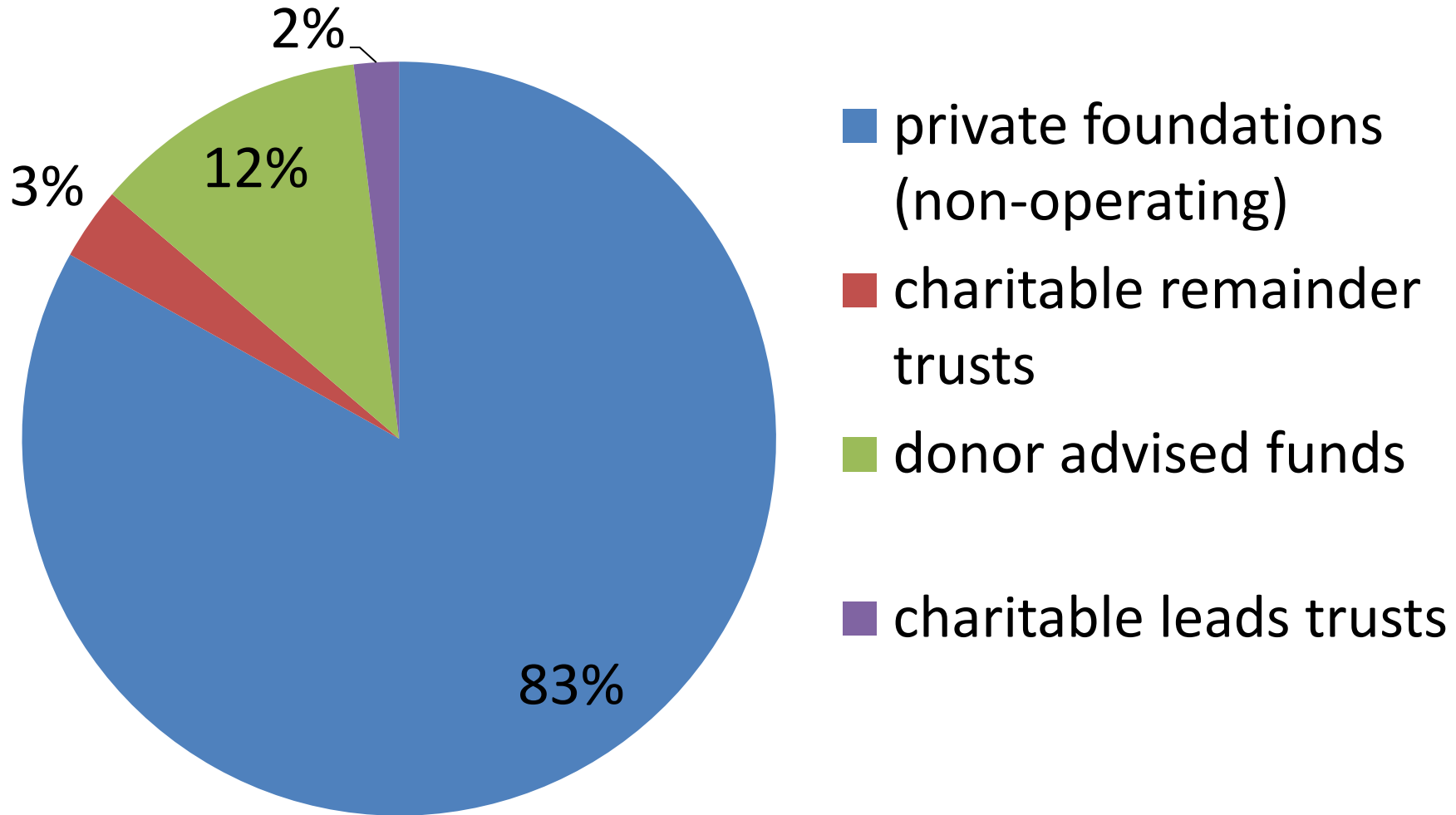
**Annual share of assets to charity: 21.22%**<sup>b</sup>

<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 and Magnitude



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at Texas Tech University



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