



Paying it Forward

Even in a recession, there are options for structuring your charitable giving.

You are a philanthropist if you consistently donate charitable gifts to make the world a better place. You probably give considerable thought to your annual charitable giving, and you know how much the weak economy has affected charitable organizations.

What better time than now to organize your philanthropy through a private foundation or a donor-advised fund? The choice will depend on the funds you can dedicate to charitable causes and whether you want to be a “hands-on” donor.

A private foundation is a charitable organization funded primarily by an individual, a family or a corporation. It may be organized as a nonprofit corporation or a trust. Its principal purpose is usually making grants to organizations for scientific, educational, religious or other charitable purposes. Many private foundations focus their grant-making on one or more areas of interest, such as health care or the arts.

If you also want to provide for your family, you can combine philanthropy with estate planning through a charitable lead trust.

Private foundations are subject to a number of reporting and operational rules, including restrictions on self-dealing and annual distribution requirements. As a practical matter, the cost of administration and compliance make a private foundation suitable only for donors who plan to give substantial contributions and create a permanent fund.

A donor-advised fund (DAF) is a relatively simple, low-cost and flexible alternative to a private foundation. A DAF is created by contributing to a public charity that sponsors and administers DAFs. The donor is entitled to an immediate income tax deduction upon making the contribution. The donor recommends which charitable organizations will receive grants, and the amount and timing of such grants. The sponsoring organization takes care of all the administrative work, may provide support in the grant-making process and furnishes the donor with periodic reports. This approach enables the

donor to concentrate on grant-making.

The sponsoring charity has final approval on the grants (ensuring grants go to qualified charitable organizations) because that is one of the guidelines governing the operation of DAFs.

DAFs are available through local community foundations and many other charitable organizations. A number of mutual fund companies, brokerage firms and trust companies have DAFs as well. There are differences among DAFs with respect to the types of assets accepted, the level of administrative fees charged, the minimum amounts required to establish a fund, and restrictions on the types of grants that may be made. For example, if you plan to establish a DAF, you might want to ask whether grants may go outside your community or whether there is a minimum grant amount.

If you are committed to annual charitable giving but also want to provide for your family, you can combine philanthropy with advantageous estate planning through a charitable lead trust (CLT). Current low interest rates and low asset values make this a particularly opportune time to consider a CLT.

A CLT functions somewhat like a temporary private foundation. To create a CLT, you transfer assets to a trust. The trustee distributes income, typically in the form of a fixed annual payment, to one or more charities for a term of years. At the end of the selected term, the assets in the trust, which ideally have appreciated, are transferred to the donor’s designated family members. Because the value of the charitable “lead” interest reduces the amount of the taxable gift to family members, it is possible to greatly reduce or even eliminate gift or estate taxes that would otherwise be due when the assets are distributed to family members. The rules governing CLTs are complex and you need the help of a competent professional to establish one, but the benefits can be compelling.

FILMORE ROSE, an attorney at Lane Powell, focuses his practice in the areas of tax, estate planning and tax-exempt organizations. He is experienced in legal issues involving federal estate, gift and generation-skipping tax, including both planning and compliance. He also represents individuals and charities in charitable gift planning. He can be reached at rosef@lanepowell.com or (206) 223-7747.