

White Paper

BNA
Bloomberg

Help Clients Achieve Charitable Aspirations with Proactive Estate Tax Planning

Charitable Giving is on the Rise Making Charitable
Planning an Extremely Timely Topic



Help Clients Achieve Charitable Aspirations with Proactive Estate Tax Planning

Introduction

Americans today are more charitable than ever before. In 2016, giving to charity by individuals in the U.S. totaled an estimated \$282 billion. People from all generations and walks of life got into the act, with Millennials giving an average of \$580 to charity in a one-year period, Generation Xers giving \$799, Baby Boomers \$1,395, and Matures \$1,093.¹

While personal and familial philanthropic goals should be the primary focus of charitable giving, a secondary goal should be proactive tax planning. In practical terms, people who are worried about a current tax issue or expect a major taxable event in the future – such as, the sale of a business or rapid and substantial asset growth – are more inclined to be interested in planning for charitable giving. Estate tax concerns are also drivers of greater interest in planning for charitable giving.

Chances are that many of your clients are charitably inclined and want to give back, both now and in the future. The critical questions are whether they understand the best way to go about it, and what kind of charitable donation they should make. With their charitable intentions in mind, they will also want to continue to meet their personal and family financial goals.

Moreover, many clients will be driven by the tax benefits of charitable giving, and will be interested in learning how to minimize their tax exposure. As a financial or tax advisor, you're in the best position to create a plan that helps them meet their philanthropic goals and supply the guidance necessary to direct their charitable giving in the most tax-advantageous way.

Charitable giving by the numbers

- \$390.05 billion in philanthropic giving in 2016
- Individuals gave 72% of all philanthropic contributions in 2016
- Where do the dollars go? (as a percentage of the total)
 - Religion (32%)
 - Education (15%)
 - Human Services (12%)
 - Foundations (10%)
 - Health (8%)
 - Public-Society Benefit (8%)
 - Arts, Culture, and Humanities (5%)
 - International Affairs (6%)
 - Environment/Animals (3%)
 - Individuals (2%)

Source: "Giving USA 2017: The Annual Report on Philanthropy for the Year 2016," Giving USA Foundation, June 2017

¹ "Millennial Donors: They're Not Who You Think They Are," Dunham+Company, June 30, 2017.

Help Clients Achieve Charitable Aspirations with Proactive Estate Tax Planning

Start the Conversation

With nearly 100 percent of high-net-worth clients giving to charity and with charitable giving on the rise regardless of wealth, charitable planning is an extremely timely topic for every advisor to address with their clients. Yet according to Krystal Kiley, vice president of relationship and practice management at Fidelity Charitable, only 14 percent of advisors talk about charitable giving with their clients.²

“Making sure clients are helping the causes they are passionate about is often what makes the difference between life planning and mere investment management,” says Jon Jones, chief executive officer of Brighton Jones, a Seattle-based wealth management firm. “It deepens relationships with clients and opens up new opportunities.”³

When should you talk to your clients about charitable giving? According to Holland & Hart LLP, a national law firm, the conversation about charitable planning with a client is becoming more prevalent in the early stages of planning, especially when practitioners are getting to know their clients.

A first step in charitable planning is to find out which causes your clients feel strongly about and how they see themselves supplying aid to these causes. Identify which charities they are currently giving to and for which organizations they volunteer. It may be to a local Humane Society, food bank, cancer survivor organization, or some other non-profit organization that is near and dear to their hearts. By doing this, you put yourself in a much better position to help them define targets aligned with their personal interests and principles.

An essential next step is to perform due diligence on your client’s new and existing charitable-giving targets, confirming that the chosen organizations are legitimate, reputable, and sustainable, as well as eligible for tax-deductible contributions.

Best assets for giving

Which assets are the best to give to charity? In general, the best assets to give are ones that have a significant tax impact on income tax, capital gains tax, or estate tax. Often gifting appreciated property to charity rather than a cash gift can be more tax efficient. Appreciated property includes real estate, securities, and other assets that aren’t tangible personal property, but can be easily valued.

Understand Your Client’s Charitable Goals

After identifying bona fide charities to which donations will be made, it is time to determine your client’s charitable wishes and goals. The following questions can help you guide the discussion:

1. How much and/or which assets do you want to donate to charity?
2. When do you want to give to charity – during your lifetime or at death? Should there be a set period of time?

² Zhou, Michelle, “Charitable Giving: New Help for Advisors,” Financial Planning, July 27, 2016.

³ Ibid.

Help Clients Achieve Charitable Aspirations with Proactive Estate Tax Planning

3. How much of your wealth would you like to preserve for your family, dependents, and other non-charitable beneficiaries?
4. Do you have any charitable-giving vehicles or plans already in place?
5. Are you concerned with having sufficient assets and income during your lifetime?
6. How much control do you want to have over the assets you donate to charity?
7. Are there any special circumstances to be considered when making the charitable donation?
8. Would you prefer to give anonymously or receive recognition?
9. How important is minimizing tax exposure to you

The answers to these questions will help you provide informed guidance on the next step: developing a plan that meets your client's charitable giving goals while minimizing tax liability.

It's a team effort

Charitable giving is a team sport, with specialists often coming together to lend their particular expertise to the effort. All members of a client's charitable-giving team can also work cohesively to help a client achieve his or her charitable goals. A financial advisor may provide advice on the most appropriate assets to donate, while an attorney is required to draft the documents that execute the transfer. Meanwhile, an accountant can assist in monitoring and reporting the tax implications of the charitable giving plan.

Another planning resource for charitable giving is the charity itself. Many major charities have a Development Office or Planned Giving Department that specializes in helping donors structure their gifts in the most advantageous way. Many are very open to working with a client's financial and legal team to ensure gifts are appropriately directed and legally sound.

Formulate the Best Plan

Now it's time to formulate the right plan to achieve your client's charitable giving goals. This includes deciding which assets will be the best to give, how to give them, and when.

Will it be an *outright bequest* or a *planned gift* such as a charitable trust? While an outright bequest is the simplest form of charitable giving, it may not be the most tax advantageous. That's why you'll need to consult with other members of the charitable planning team to jointly model out various scenarios in order to determine the best options for your client to accomplish his or her objectives.

Here are a few charitable giving techniques that you should be familiar with:

- **Outright bequest** is the most direct option for charitable giving. Cash or property is given immediately to the qualified charity, and the donor receives an immediate income tax deduction in the year of the gift. If given at death via will or estate planning document, the estate receives a charitable deduction that decreases the estate for estate tax purposes.
- **Donor-advised fund** is increasing in popularity because it offers a number of advantages.

Help Clients Achieve Charitable Aspirations with Proactive Estate Tax Planning

Donors make a charitable contribution, receive an immediate tax benefit, and then can recommend grants from the fund over time. This is especially important when immediate charitable giving is required because of a major tax realization event.

- **Private foundation** is a nonprofit organization usually created by a single primary donation with the intent of helping an individual or family reach their philanthropic goals. This form of charitable vehicle offers donors flexibility, control over investment and distribution decisions, and tax advantages, but can be complex to operate due to specific governance and tax-deduction rules for private foundations.
- **Charitable Trusts** accomplish multiple client objectives at the same time, including making sure that the client's assets benefit both charitable and noncharitable beneficiaries. In a charitable "lead" trust, the charity receives the money during the term of the trust (i.e., for a set number of years and with set parameters) and noncharitable beneficiaries receive the remaining property after the term expires. In a charitable "remainder" trust, the charity will receive all the property that is left in the trust at the end of the term while noncharitable beneficiaries will take advantage of the trust during the set term. The donor does not receive a tax deduction for the entire value of property that is transferred to the trust, but on the determined value of the interest the charity will receive.

Conclusion

Incorporating charitable giving into a client's estate planning exercise can help achieve their estate and gift tax objectives. Estate and gift tax planning can be complex and time consuming, especially when performing detailed what-if analysis to determine the best options for your clients.

Offering the best and most timely advice to every client should be the goal of every tax practitioner. With a complete understanding of your clients' interests and intentions, and relying on the right tools, you can provide a well-researched and comprehensive tax plan that will offer the greatest peace of mind.

About BNA Estate & Gift Tax™ Planner

As the industry's gold standard in estate tax planning software, **BNA Estate & Gift Tax Planner** with its built-in, accurate calculations, lets you quickly model and analyze complex tax planning scenarios including those using charitable giving strategies. It makes it easy for you to create sophisticated estate tax plans and presentations for your clients. No matter how large or complex the estate, with built-in federal and state tax law expertise, BNA Estate & Gift Tax Planner gives you the utmost confidence, allowing you to develop innovative strategies, see the interplay of all variables, and produce solid, comprehensive analysis that show your clients how to reach their financial goals.

Help Clients Achieve Charitable Aspirations with Proactive Estate Tax Planning

About Bloomberg BNA's Software Products

Bloomberg BNA software products provide unique insight, actionable information, and smart tools in the areas of corporate tax, fixed assets, individual tax planning, and tax compliance resources. With category-leading software and top-rated technical support, we are the solution of choice for professional firms and corporations of every size. More than 70,000 customers depend upon Bloomberg BNA's software products for the highest degree of tax, regulatory, and compliance expertise available in the market.

About Bloomberg BNA

Bloomberg BNA provides legal, tax and compliance professionals with critical information, practical guidance and workflow solutions. We leverage leading technology and a global network of experts to deliver a unique combination of news and authoritative analysis, comprehensive research solutions, innovative practice tools, and proprietary business data and analytics. Bloomberg BNA is an affiliate of Bloomberg L.P., the global business, financial information and news leader.

Though intended to provide accurate and authoritative information, this publication is provided with the understanding that it does not constitute tax, legal, accounting, or other professional advice or service. This publication may not be reproduced, stored in a retrieval system, or transmitted in whole or in part, in any form or by any means, electronic, mechanical, photocopying, recording, or otherwise, without the prior written permission of Bloomberg BNA.

For more information call 800.424.2938, contact your local Bloomberg BNA Representative, or visit www.bnasoftware.com.

1801 South Bell Street, Arlington, VA, 22202

© 2017 BNA Software, a division of Tax Management Inc. All rights reserved.

1017rc