Estate Planning and Charitable Giving: The Perfect Marriage

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Total U.S. charitable giving in 2015: $373 B

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Why bring up charitable giving?

Because your clients expect you to!

High net worth clients are clear: 45% want advice from advisors on philanthropy, yet only 8% report that advisors actually bring up the topic!

You can change the world, one client at a time!

Among clients 55+ with a trust or will, how many have a charitable gift in place?

10%! But imagine 15%, 25%...

What happens if you ask?

Baseline (no ask) vs. Plain Ask (“Would you like to leave money to charity?”) vs. Social Norm Ask (“Most of our clients give to charity in their trust/will. What causes are you passionate about?”)

2x & 3x the baseline!
How to recommend charitable giving — without recommending a charity.

Research options for clients

National: guidestar.org
Local: givingedge.org
Ways to give

• **Direct to nonprofits**
  - Can they accept complex gifts?
  - Are they prepared to handle a large gift?
  - Are they likely to be around long term?

• **Through the Community Foundation**
  - Donor maintains control of gift details
  - Prepare for contingencies
  - Community expertise

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Community foundations

- Community foundations are grantmaking public charities that are dedicated to improving the lives of people in a defined local geographic area.
- They bring together the financial resources of individuals, families, and businesses to support effective nonprofits in their communities.
Local community foundations

Sacramento Region Community Foundation

- Founded in 1983
- 600 charitable funds
- $131M in assets (74% endowed)
- Professional staff of 15 – highly efficient staff/asset ratio

Resources available at sacregcf.org
Tools for giving through the community foundation

The Basics: Types of donors and timing of gifts

Types of Donors:
- Living
- Legacy
- Both

Two Flavors:
- Expendable - Immediate Impact
- Endowed - Enduring Impact

Annual fees
- Expendable: 2%
- Endowed: 1½%
- Scholarships: 2½ - 3½ %

Minimum Fund Size:
- $10k
- Scholarships: $25k
Types of charitable funds

- **Donor Advised Fund**: Donors advise which nonprofits receive their gifts.
- **Designated Fund**: Donors direct their gifts to specific nonprofits.
- **Field of Interest Fund**: For donors who prefer to support in an important area of community life: arts, homelessness, youth, etc., vs. designating individual nonprofits.
- **Unrestricted Funds**: For donors who want to support the ever-changing community needs of the future.
- **Scholarships**: To help deserving students now and forever.
- **Legacy Funds**: Funded through a future estate gift.

Legacy funds

- Donor’s Estate
- Donor’s Charitable Fund
- Fund Agreement with Detailed Giving Instructions

Legacy of Giving!
Lifetime Gifts
Cash and publicly traded stock
Non-cash assets: privately held stock, real estate, limited partnerships and some tangible personal property (with approval from our board)

Testamentary Gifts
Simple Bequest - the most common
Designate a particular asset, fixed amount of portion of estate
Beneficiary Assets
Retirement plans, life insurance, annuity policies, simple change of beneficiary form

Assets to establish charitable funds

Assets to establish charitable funds (Cont.)

Split Interest Gifts
Charitable Gift Annuity
Annuity contract pays client for life and remainder goes to donor’s charitable fund
Charitable Remainder Trust
Trust pays beneficiary for life and then assets transfer to donor’s charitable fund
Charitable Lead Trust
Trust make gifts of a fixed amount to the donor’s charitable fund for a number of years and then assets go to beneficiary of donor’s choice

Real People, Real Stories
Chris Ann Bachtel Foundation: Shining her light on generosity

- No immediate heirs
- Track record of guiding her clients to philanthropy
- Established her own Legacy Fund in 2014
- Then, decided to activate her fund as Donor Advised to do all her current giving while living
- Adds to the fund annually through gift of highly appreciated stock
- Her future bequest will grow the fund substantially and continue her giving to nonprofits she has selected for 10 years beyond her passing

Todd and Betsy Stone Family Fund: Making provisions for generosity

Family Legacy Fund
Very philanthropically engaged couple with adult children
Upon their passing, fund will become Donor Advised with 2 children and a friend as Fund Advisors with full grantmaking privileges
Allows heirs to give according to their own interests vs. upholding parents’ wishes

Altavilla Family Foundation: All in the family

Donor Advised fund - Endowed
Both are philanthropic and wanted to give back to the community “that has been good to us”
Annual gifts of appreciated securities
Allows them to have charitable funds ready when immediate needs arise in the community
Future estate gift will allow their children to continue their parents’ legacy of giving as Successor Advisors to the fund
Helping clients realize their charitable goals

Some of the greatest opportunities to make charitable gifts arise when making major business, personal, and financial decisions.

Scenario
Beneficiary Designation: 1%, 5%, 10%
Name a charity for a small percentage.
*Most tax-efficient gift and simple!
Opportunity
Age 70.5 turn RMD to QCD
Up to $100,000 can be distributed directly to one or more charities.

Listening for opportunities
Listening for opportunities

SALE OR DISPOSITION OF HIGHLY APPRECIATED ASSETS & DESIRE FOR STREAM OF INCOME

Scenario
Appreciated asset such as stock or real estate.

Opportunity
Use appreciated asset to create a charitable remainder trust (CRT).

Tax benefits
• Receive a tax deduction on its full market value, while avoiding the capital gains tax that would otherwise arise from sale of the stock.
• Limited to 30% of AGI and carry forward 5 years unused deduction.

CRT EXAMPLE

Listening for opportunities

SALE OF A BUSINESS / CLOSELY HELD STOCK

Scenario
Owns highly appreciated stock in a company that is about to be acquired.

Five Key Steps
1. Early bird - Timing is essential!
2. All company documents in order – Waiver/consent
3. Qualified appraisal required – No short cuts
4. Choose the Charitable Strategy: operating, private foundation or DAF
5. Trusted Advisors + Expertise at the Charity
Carefully Choose the Giving Strategy

<table>
<thead>
<tr>
<th>Operating</th>
<th>PF</th>
<th>DAF</th>
</tr>
</thead>
<tbody>
<tr>
<td>Tax Deduction</td>
<td>FMV</td>
<td>Cost Basis</td>
</tr>
<tr>
<td>Inc Tax Deduction</td>
<td>30%</td>
<td>20%</td>
</tr>
<tr>
<td>Diversity Giving</td>
<td>100% to 1</td>
<td>Multi-charity</td>
</tr>
<tr>
<td>Confidentiality</td>
<td>Internally no</td>
<td>990-PF is public</td>
</tr>
<tr>
<td>Efficiency</td>
<td>Multiple?</td>
<td>Single contact</td>
</tr>
</tbody>
</table>

Listening for opportunities

HIGH ESTATE TAXES

Scenario
Client couple with net worth of $12 million
Two children – Fear of spoiling?
We don’t want to pay Uncle Sam!

Opportunity
Client choices
Do nothing or propose a solution?
$800,000 check to IRS or...

Simple Numbers

High estate taxes - currently 40% rate

<table>
<thead>
<tr>
<th>Gross Estate</th>
<th>Exemption*</th>
<th>Taxable Estate</th>
<th>Tax Rate</th>
<th>Tax Due</th>
<th>Net Estate to Children</th>
</tr>
</thead>
<tbody>
<tr>
<td>$12,000,000</td>
<td>$10,000,000</td>
<td>$2,000,000</td>
<td>40%</td>
<td>$800,000</td>
<td>$11,200,000</td>
</tr>
</tbody>
</table>

*For illustration, $5M exemption used. 2017 Exemption is $5,490,000
Listening for opportunities

PRIVATE FOUNDATIONS

Scenario
Thinking about establishing a private foundation, but looking for alternatives.

Opportunity
• Establish a Donor Advised Fund and stay personally involved with the distribution of gift dollars.
• Use community foundation for simple administration and grantmaking expertise.

Crystal Ball - New Tax Laws?

• Estate Tax - To Be or Not to Be?
• Gift Tax
• Charitable Deductions
• Federal
• State

In Closing
80% of clients expect advisors to bring up charitable giving

Who actually does?

- 5.7% of CPA’s
- 6.3% of Attorneys
- 8.0% of Wealth Advisors
- 15.5% of Nonprofits

The opportunity is huge.
The opportunity is huge.
$41 trillion will pass to heirs by 2052!

Interested in learning more?
Consider joining the Philanthropic Advisors' Forum!

Thank you!

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Resources

- Slide 2: Giving USA 2016: The Annual Report on Philanthropy; Indiana University Lilly Family School of Philanthropy
- Slide 4: 2013 US Trust Study of the Philanthropic Conversation; The Philanthropic Initiative
- Slide 5: American Charitable Bequest Demographics; Russell N. James III, J.D., Ph.D., Professor, Texas Tech University
- Slide 40: 2010 Bank of America Study of High Net Worth Philanthropy