WELLS FARGO Wealth & Investment Management

Charitable giving strategies

Learn the basics of four different approaches

The following information and opinions are provided courtesy of Wells Fargo Bank, N.A.

Many individuals and families express a desire to give to charity. When it comes to the specifics, though, it can become overwhelming. Should I give now by writing a check? Should I establish a charitable trust or foundation for long-term impact? What is most advantageous strategy for tax benefits? How can I achieve charitable impact while also providing for my heirs?

With a wide range of giving options to choose from, it is helpful to start by defining your philanthropic vision and values. What do you want to achieve with your philanthropy? Next, gain an understanding of the different charitable strategies available to you and how each can help you meet your philanthropic goals. With this information, you can maximize your charitable impact by creating a charitable giving plan that strategically aligns your charitable mission and values with your estate planning goals – taking into consideration tax implications, family engagement, generational planning, and lifetime income needs.

Common strategies to consider

- Donor advised fund (DAF)
- Private foundation
- Charitable remainder trust (CRT)
- Charitable lead trust (CLT)

Timing

To determine the most appropriate philanthropic strategy, first consider the timing of your gifts. When do you want to give: now, regularly over your lifetime, through your estate plan, or a combination of these approaches? It's important to coordinate your charitable efforts so they have the opportunity to do the most good while also maximizing potential tax benefits.

Transfers during life. Giving during your lifetime allows you to see the impact of your philanthropy while retaining the ability to exert some continuing influence over the timing of the gift. Depending on your personal situation, these charitable gifts can also provide an income tax deduction.

You can make your gifts outright or through a structured charitable giving strategy. Outright giving is immediate and takes little effort — you simply write a check, make a transfer, or gift highly appreciated stock. This can be an effective manner of giving for time-sensitive needs or one-time support — such as natural disasters or fundraising campaigns. However, you typically have little control over how the money will be used and the gift may be of little ongoing benefit to your heirs.

Donating through a structured giving strategy could offer longer-term benefits, increased flexibility, and potentially more control of how your money is used. Structured options are described below and in the following comparison table.

Transfers from your estate. In conjunction with or as an alternative to lifetime giving, you may leave gifts to charitable causes upon death. Testamentary charitable gifts given through your estate plan allow you to retain control of and use assets during your lifetime—and ultimately to provide support for worthy causes. However, you will not witness or control the ultimate impact of the gift. Testamentary gifts are typically implemented through estate planning documents (i.e., will or revocable trust) which should be carefully written based on your personal needs and desires. For example, when determining the amount you wish to leave to charity, you should take into consideration whether you wish to leave more, less, or the same amount to charity if there has been a significant increase or reversal of your wealth between the time you establish your wishes and the time you pass away.

Structured charitable giving vehicles

Instead of or in addition to immediate outright gifts to charity, you can create a long-term plan for giving using a trust, foundation, or donor advised fund (DAF). Most options provide tax and nontax benefits (e.g., allowing families to come together to make charitable decisions).

A program of this type can result in both immediate and ongoing benefits for the recipient organization and can be advantageous for you and your heirs. Some types of gifts can also be structured to provide you (or others) with an income stream during your life.

Family foundations and DAFs

Family foundations and DAFs serve as vehicles to help preserve and build transferred family wealth, and then distribute that wealth to charitable causes over extended periods of time.

Family foundations. Private foundations (nonprofit corporations or trusts with a tax-exempt status) may appeal to families who want to maintain control over the grantmaking process and management of donated assets. Foundations allow you and your family members—or others whom you designate—to maintain oversight of the amount, timing, and recipients of various grants.

Private foundations can result in high visibility and recognition and can sustain a specific philanthropic vision or philosophy for an extended period of time. In fact, many private foundations are formed to last in perpetuity, thus extending a legacy over many generations.

Note that there are annual reporting and regulatory requirements that can make setup and administration of family foundations laborious and costly. Additionally, they are subject to excise taxes and could be less favorable from a tax perspective with lower deductibility caps and the treatment of capital gains on certain gifts.

DAF. A donor advised fund is a charitable vehicle administered by a public charity for the purpose of managing donations on behalf of an individual, family, or organization. While your contribution is irrevocable and the ultimate control of where the donation goes is controlled by the charity, a donor advised fund may offer you more flexibility.

For example, you can:

- Contribute a wide range of assets including stock, real estate, art, and collectibles.
- Recommend grants, including international and specialized grants, that fit your giving goals.
- Choose from different investment options that match your philanthropic goals.
- Establish a lasting charitable legacy.

Trusts

Two of the most common types of charitable trusts are charitable remainder trusts (CRTs) and charitable lead trusts (CLTs). If you choose, your charitable trust can potentially provide substantial funding for your DAF or family foundation—during lifetime or at death—while providing tax benefits.

Like all trusts, CRTs and CLTs have two main beneficiaries, the current beneficiary (sometimes called the "income beneficiary" or "lead beneficiary") and the future beneficiary (often called the "remainder beneficiary").

With CRTs, the income beneficiary is a non-charitable beneficiary (e.g., you, your family, and/or other loved ones), and as its name implies, the remainder is a charitable beneficiary (e.g., public charity, your DAF, or your family foundation).

As its name implies, with a CLT the income or lead beneficiary is charitable and the remainder is a non-charitable entity.

The trusts serve the following purposes:

- Provide charitable distributions at different points in time (CRTs at the end of the trust's term, CLTs at
- the beginning).
- Offer different income and transfer tax benefits.
- Provide benefits both to you (and/or your heirs) and to charity.

The chart on the next two pages provides a comparison of benefits and key considerations for each of these charitable giving vehicles to help determine which will be most effective in meeting your goals.

Which approach is right for you: CRT or CLT?

Both CRTs and CLTs have unique income and transfer tax benefits. CRTs generally have more immediate income tax benefit; CLTs are generally favored for their transfer tax (i.e., estate and gift tax) benefits. Because the calculation of who gets what (between charity and non-charity) is based on IRS-prescribed interest rates, CLTs are generally preferred when the IRS-mandated rates are lower, while CRTs generally provide a greater benefit when the IRS-mandated rates are higher. The vehicles are different and your unique planning objectives should be considered before choosing which type of trust is right for you.

Structured charitable giving strategies

	Donor advised fund (DAF)	Private foundation	Charitable remainder trust (CRT)	Charitable lead trust (CLT)
Description	Separate fund at a sponsoring 501(c)(3) public charity that allows the advisor, generally the donor or donor's family, to recommend grants to charitable organizations on their own personal timetable	A separate legal entity (trust or corporation) that offers donors significant tax benefits and control over distributions	Trust that pays amount to non-charitable beneficiary, typically for life or a fixed term (of up to 20 years), with remainder payable to charity	Trust that pays amounts to charity for the life of an individual related to remainder beneficiaries or for a fixed number of years with remainder typically payable to family
Creation	Established at a sponsoring 501(c)(3) public charity	Nonprofit corporation or trust organized as a private foundation; requires the services of an attorney and filing of Form 1023 with the IRS	Trust created inter-vivos (during life) or testamentary (at death); requires the services of an attorney	Trust created inter-vivos (during life) or testamentary (at death); requires the services of an attorney
Donor control	Donor retains advisory privileges, but charity retains control of assets Charitable advisor, generally the donor or donor's family, may recommend grants to charitable recipients	Donor can retain significant control over investments and charitable activities, subject to IRS regulations	Grantor may retain the ability to add or change remainder charitable beneficiaries (i.e., qualified charities, private foundations, or donor advised funds) Limit charitable remainder beneficiaries to qualified public charities or donor advised funds for contribution to qualify as a contribution to a public charity	Grantor may retain the ability to add or change lead charitable beneficiaries (i.e., qualified charities, private foundations,[1] or donor advised funds), as well as the remainder non-charitable beneficiaries Grantor should not retain this power for estate tax purposes if trust is a non-grantor charitable lead trust or super grantor charitable lead trust
Costs	No startup costs; ongoing administration and investment management fees, usually nominal in comparison to other charitable giving vehicles	Legal and accounting fees at startup; ongoing administration, investment, and tax return preparation fees	Trust agreement legal fees; ongoing trustee/investment management fees and tax preparation fees	Trust agreement legal fees; ongoing trustee/ investment management fees and tax preparation fees
Distribution requirements	No legal or IRS required payout; some DAF sponsors have a minimum payout requirement for all of their donor advised funds	Must distribute at least 5% of net value of non-charitable use assets annually; some expenses are included in satisfying the 5% payout requirement	Minimum payout rate of 5% and maximum payout rate of 50%	No minimum or maximum payout rate requirement

[1] Private foundations as charitable lead beneficiary.
See Revenue Ruling 72-55, PLR 7844041, PLR 9533017, PLR 9642039, PLR 9810019, PLR 9821030, PLR 9822018, PLR 9822019 and/or PLR 9822021.

	Donor advised fund (DAF)	Private foundation	Charitable remainder trust (CRT)	Charitable lead trust (CLT)
Annual tax filings and returns	No filing requirement; reported as part of sponsoring charity's Form 990; individual DAFs are not disclosed on sponsoring charity's Form 990 (Form 990 is open to public inspection)	Entity files Form 990-PF and required supporting schedules; Form 990-PF is open to public inspection; annual state registration filings may be required for private foundations established in corporate form	Annual return filings required	Annual return filings required
Tax implications	Income tax charitable deduction in the year the gift is made (lifetime gift) or estate tax charitable deduction (testamentary gift)	Income tax charitable deduction (lifetime gift) or estate tax charitable deduction (testamentary gift)	Trust is generally tax-exempt, so a sale of appreciated assets results in no income tax consequences to trust Income and estate tax charitable deduction Income tax deferral on sale of appreciated assets contributed to trust	Income tax charitable deduction (only if grantor or super grantor trust) Potential to reduce gift/estate taxes Trust is not income tax-exempt, and sale of assets generates income tax to trust (non-grantor trust) or to donor
Timing of gifts to charitable organizations	Charitable distributions occur over time, as recommended by the advisors to the fund (generally the donor or donor's family)	Charitable distributions occur over time as determined by donor or donor's family, subject to IRS rules regarding minimum distributions	Postponed until termination of trust term, which could be lifetime or a number of years	Charitable distributions begin on trust formation and continue until trust termination (commonly 10 to 20 years or until the donor's death, if established during donor's lifetime)
Charitable income tax deduction to donor (subject to adjusted gross income limitations below)	Fair market value for cash, gifts of appreciated securities, and most non-cash assets (lifetime transfers only) Cost basis for gifts of tangible personal property (lifetime transfers only) No income tax deduction for testamentary transfers	Fair market value for cash or gifts of publicly traded securities (lifetime transfers only) Cost basis for gifts of other assets (lifetime transfers only) No income tax deduction for testamentary transfers	Present value of charitable remainder interest	Present value of charitable lead interest (only if structured as a grantor or super grantor trust; otherwise, no income tax deduction)
Adjusted gross income (AGI) limitations[2]	Up to 60% of AGI for cash gifts (lifetime transfers only) Up to 30% of AGI for non-cash gifts (lifetime transfers only)	Up to 30% of AGI for cash gifts (lifetime transfers only) Up to 20% of AGI for gifts of publicly traded securities (lifetime transfers only)	Up to 60% of AGI for cash gifts to public charities and up to 30% of AGI for cash gifts to private non-operating foundations Up to 30% of AGI for non-cash gifts to public charities and up to 20% of AGI for gifts of publicly traded securities to private non-operating foundations	Up to 30% of AGI for cash and non-cash gifts

[2] IRC §170(b)(1).

Consult with your legal and tax advisors

These charitable strategies can potentially help you reduce taxes while addressing your charitable goals. However, each strategy has its own unique characteristics and technical requirements. To help make sure you can take advantage of potential tax savings, it's important to discuss your situation and proposed strategy with your legal and tax advisors.

How we can help

Because of the personal nature and potential tax benefits of charitable giving, it is important to be thoughtful before taking action. You have several options to choose from—or a combination of approaches—to help you meet your objectives.

When you work with Wells Fargo Bank's Philanthropic Services to create a charitable giving plan, experienced and credentialed philanthropic specialists will help you define your mission, values, and areas of focus. Then, our specialized charitable administration team will provide ongoing account management and oversight to help fulfill your philanthropic objectives. Backed by these professional services, you can create an effective strategy designed to help you meet your philanthropic and estate planning goals.

Get started

To learn more about the benefits and potential tax advantages of various charitable giving vehicles and strategies, please contact your advisor or philanthropic specialist.

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