Learn about charitable giving

Investor education

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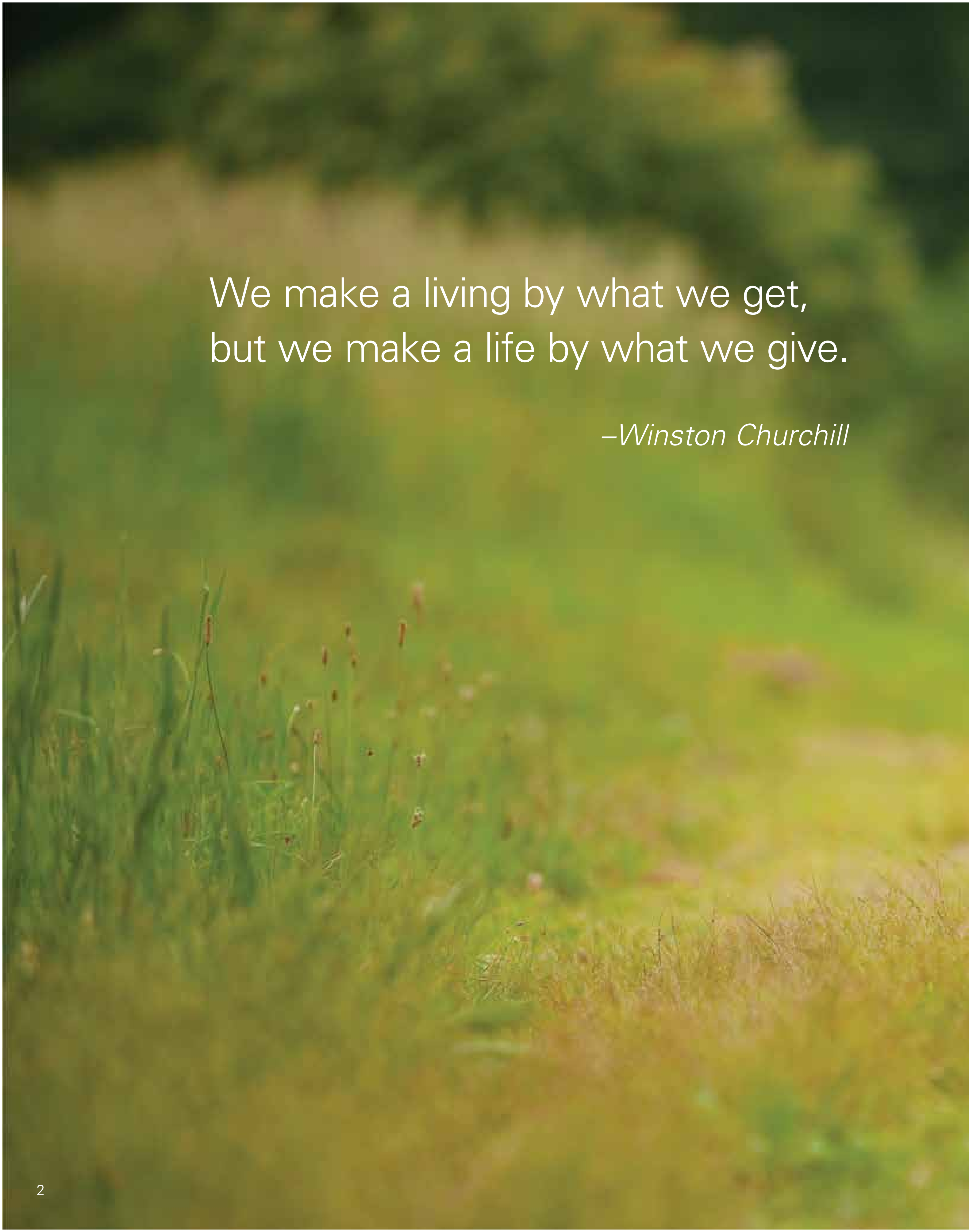
Philanthropy is a fundamental part of human nature

Regardless of whether your charitable giving is a result of your desire to improve the lives of others, create a legacy, gain tax benefits, or a combination of the three, it's a good idea to include your charitable efforts as part of your overall financial plan.

This guide offers a brief history of philanthropy and outlines some of the common charitable-giving options.



We make a living by what we get,
but we make a life by what we give.

–Winston Churchill

Establishing a legacy

Philanthropy in America

From the vast bequests of the Carnegies, Rockefellers, and Mellons to the simple donations made to countless worthy causes by millions of average Americans, we have always been a nation of philanthropists.

One of the earliest—and perhaps the most well-known—American philanthropists was Benjamin Franklin. The famous scientist, writer, and statesman is a classic rags-to-riches story, rising from obscurity and poverty in Boston to international renown.

Throughout his life, Franklin devoted considerable time and resources to advance his philanthropic pursuits. Most notable is his work in the creation of the nation's first lending library and first fire company; the founding of the University of Pennsylvania; and the creation of Pennsylvania Hospital, the nation's first hospital.

Perhaps less well known is a stipulation Franklin made in his will that more closely reflects the value of charitable contributions made by average Americans today.

Before his death in 1790, Franklin bequeathed £1,000 (the equivalent of $4,000) to the cities of Philadelphia and Boston. Although he directed that the money be used for specific improvements, his instructions required that most of the money could not be drawn on for 100 years and the rest could not be used for 200 years.

By 1990, the original bequests were worth more than $6.5 million—a remarkable sum from such seemingly modest bequests. Today, the money is used to fund a wide range of philanthropic efforts in both cities.

A new approach to giving

Early in the twentieth century, wealthy businessmen, such as Andrew Carnegie and John D. Rockefeller, began to organize philanthropy much like the successful corporations they ran. Instead of establishing charitable trusts, as had been the traditional mode of giving, these industrialists began installing boards of directors in place of trustees to improve flexibility and add more effective oversight to their philanthropic operations.

Also, in keeping with the new attitudes that a scientific, systematic approach to charity was the best way to solve human problems, new "community foundations" began to appear. Later, private foundations were added.

Today, a significant amount of charitable giving is conducted through private and corporate foundations that support a myriad of causes. Among the largest and most well-known charitable foundations are the Bill & Melinda Gates Foundation, the Ford Foundation, and the J. Paul Getty Trust.

How we give back

Donating to worthy causes is woven into America's social fabric. The vast majority of Americans donate time and money to support a myriad of charitable efforts.

How Americans donate

When you think of charity, there are essentially three ways to give:

- Time
- Talent
- Treasure

According to recent data, 95.4% of U.S. households donated to charities in 2013,[1] with an average donation of $2,974.[2] This amount rises to more than $68,500 for high-net-worth (HNW) households, those with incomes greater than $200,000 or assets in excess of $1 million, excluding the value of their primary home.[3]

Donating time and talent is a significant component of the philanthropic efforts of affluent Americans.

In 2013, 34.3% of HNW individuals donated more than 200 hours, 43.1% gave between 51 and 200 hours, and 22.6% volunteered up to 50 hours. Moreover, 45.7% of HNW volunteers reported that they gave back to their community by serving on the board of directors of a nonprofit organization.[3]

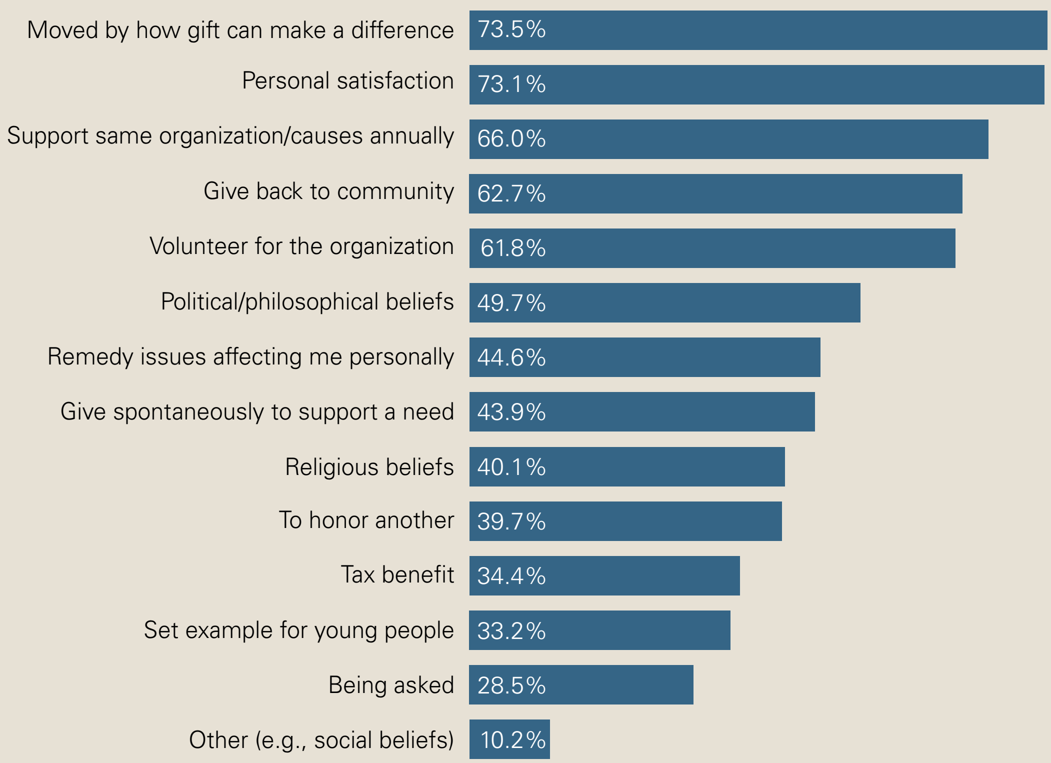
1 The National Philanthropic Trust.

2 The Indiana University Lilly Family School of Philanthropy, 2014. *Giving USA 2014: The annual report on philanthropy for the year 2013.* Chicago, Ill: Giving USA Foundation.

3 The Indiana University Lilly Family School of Philanthropy, 2014. *The 2014 U.S. Trust study of high net worth philanthropy: Issues driving charitable activities among wealthy households.* New York, N.Y.: U.S. Trust, a subsidiary of Bank of America Corporation.

The motivation behind charitable giving

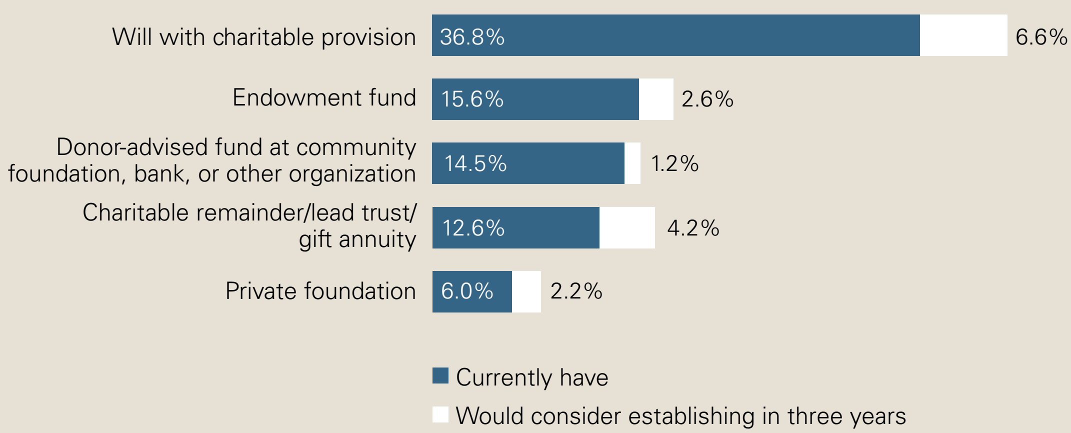
While there are many reasons that people give to charity, as the chart shows, the chief motivator for HNW households is how their gift can make a difference.



Source: The Indiana University Lilly Family School of Philanthropy, 2014. *The 2014 U.S. Trust study of high net worth philanthropy: Issues driving charitable activities among wealthy households.* New York, N.Y.: U.S. Trust, a subsidiary of Bank of America Corporation.

How people give

Research suggests that HNW Americans tend to prefer donating to funds, endowments, and foundations. Most HNW philanthropists choose to make charitable contributions through the use of a will with a specific charitable provision. More than 15% have an endowment fund with a particular organization.



Source: The Indiana University Lilly Family School of Philanthropy, 2014. *The 2014 U.S. Trust study of high net worth philanthropy: Issues driving charitable activities among wealthy households.* New York, N.Y.: U.S. Trust, a subsidiary of Bank of America Corporation.

Common options for charitable giving

With the many charitable-giving options available, choosing how to support your favorite cause can be daunting. A general understanding of the common options may help you decide which approach is right for you.

Look before you leap

Before you choose a charitable-giving vehicle, think carefully about your personal interests and your short- and long-term goals. The National Philanthropic Trust suggests that you ask yourself some practical questions designed to help make your charitable giving as rewarding as possible.

- What issues, problems, or opportunities do you care about the most?
- What are your core values, and how do you want your philanthropy to reflect them?
- What would you most want to achieve through your charity?

Taking the time to consider these questions will help you determine where you want to direct your charitable contributions and how you want to make contributions.

The following pages contain brief descriptions of common charitable-giving options. Remember to consult with your financial advisor for additional details about your philanthropic alternatives and their tax consequences and how your decisions fit into your overall financial plan.

Direct giving

Donating directly to a specific charity can be a very simple way to give and allows you to maintain a great deal of control over where your money goes.

Direct giving can include money, investment securities, property, or time and talent. Direct giving can provide significant income tax advantages. Consult with your tax specialist before you make your direct-giving decision.

Direct giving does have a couple of drawbacks. It requires you to evaluate each charity you donate to and keep records of every gift for tax purposes. In addition, it does not allow you to establish a legacy, unless you create an endowment.

Private foundations

Private foundations are generally established by a family or small group of individuals through a substantial initial contribution from which they intend to make grants over time. Private foundations do not solicit funds from the general public.

Private foundations typically invest their assets in endowment funds. They offer the donors complete control over their donations. Private foundations have no restrictions on the selection of board members. They are also an option for philanthropists who wish to establish a lasting legacy.

Establishing and maintaining a private foundation can be costly and time-consuming. Private foundations must adhere to section 501(c)(3) of the IRS tax code, which imposes a specific legal framework on their structure and activities. The framework is designed to ensure that they serve the charitable purposes for which they were intended, disburse their funds according to preconceived rules, and avoid exploitation by their directors or others who may attempt to reap unauthorized benefits.

Two of the most well-known private foundations are the Rockefeller Foundation and the Bill & Melinda Gates Foundation.

Corporate foundations

Corporate foundations are essentially private foundations that obtain their funds mainly from the contributions of for-profit businesses.

Corporate foundations generally operate under the same laws that govern private foundations. However, the tax rules that apply to corporate foundations are often not as favorable as those for private foundations.

Donor-advised funds

Donor-advised funds have steadily become more popular in recent years, especially as an alternative to giving directly to a charity or creating a private foundation. They allow you to make charitable contributions in the form of cash or other assets to a sponsoring organization to create a fund from which grants can be made.

In many ways, a donor-advised fund is similar to having a private foundation, but without the administrative hassles, including tax, legal, and accounting matters.

There's another important difference between private foundations and donor-advised funds: Due to the tax-filing requirements of a private foundation, donor grants can become part of the public record. Donor-advised funds, on the other hand, allow you to decide whether you want your grants to be made public.

The chart on the next page outlines the key differences between donor-advised funds and private foundations.

Donor-advised funds	Private foundations
No start-up costs.	Start-up costs may exceed $15,000.
No excise taxes.	Excise taxes are usually 2% of annual net investment income.
No required annual distributions at the individual account level, only at the program level.	Required distributions of 5% of net investment assets per year.
Total operating costs are usually less than 1% of account assets.	Total operating costs can range between 3% and 8% of foundation assets.
Income tax deduction on new donations:* • Up to 50% of AGI for cash gifts.** • Up to 30% of AGI for publicly traded securities held for more than one year.	Income tax deduction on new donations:* • Up to 30% of AGI for cash gifts.** • Up to 20% of AGI for publicly traded securities held for more than one year.
Grants may be made anonymously.	Grants are a matter of public record.
Program staff handle grant research and reporting requirements.	Significant grant research and reporting requirements.
No annual IRS Form 990-PF (Return of Private Foundation or Section 4947(a)(1) Trust Treated as Private Foundation) required.†	IRS Form 990-PF must be filed annually.
A selection of investment options covering a range of risk tolerances.	Almost no limits on investment options.
Grants to individuals are not permitted.	Grants to individuals are permitted.
Donor recommends the charity but does not control funds after donation has been made.	Donor may control donated assets.
Grantee organization must be verified as a 501(c)(3) public charity in good standing with the IRS.	Grantee organization does not need to be verified as a 501(c)(3) public charity in good standing with the IRS.

*The deductions apply only to personal contributions, not to transfers from private foundations.

**Adjusted gross income (AGI) is an individual's or a couple's annual income before the standard deduction or itemized deductions.

†After all foundation assets are transferred to the program and foundation termination documents are filed, no further filings of Form 990-PF are required.

Charitable gift annuities

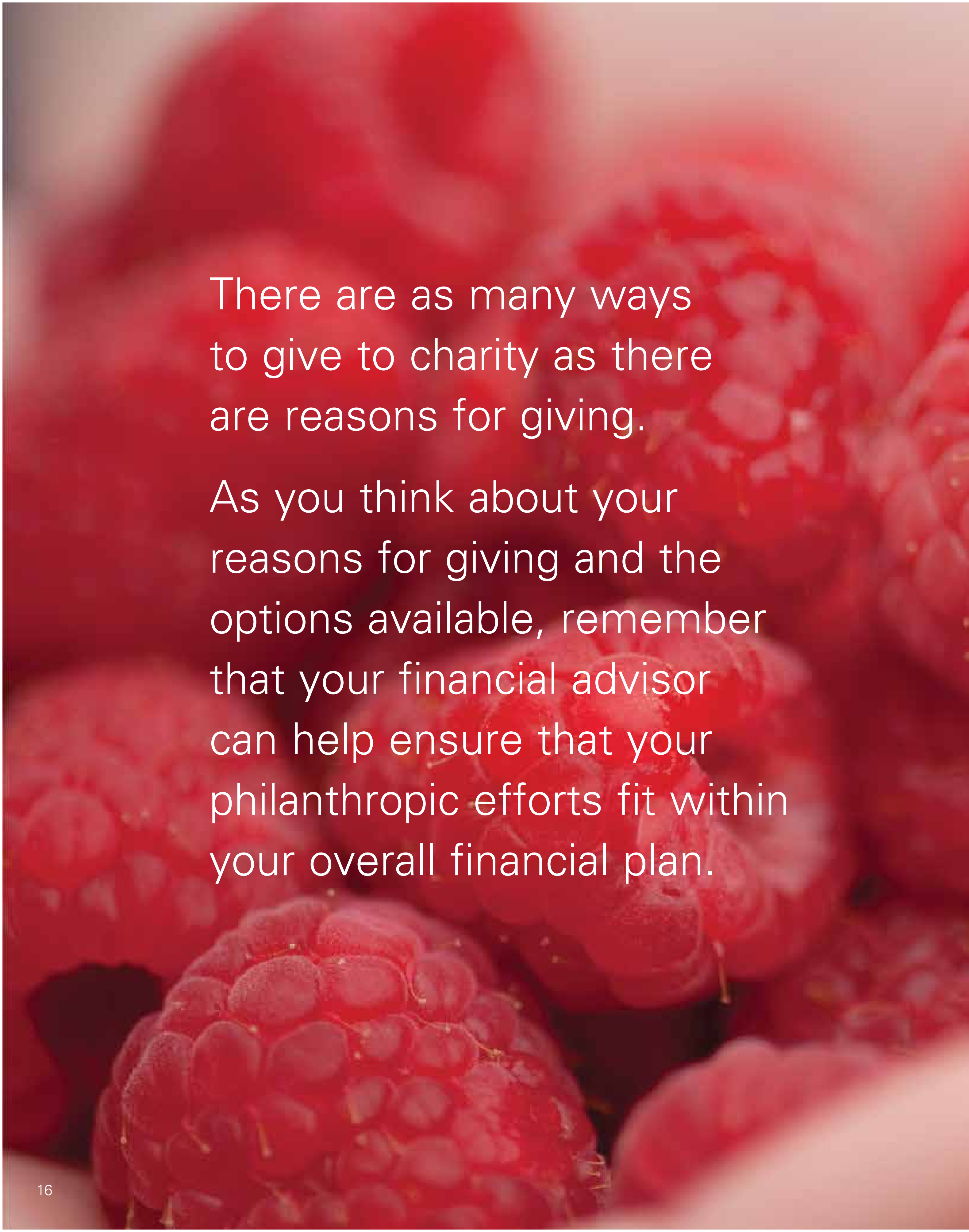
A charitable gift annuity allows you to donate to a charity and still receive income from the assets. The charity keeps the donated assets after your death or, if you prefer, following the death of your beneficiary.

Charitable gift annuities generally provide less flexibility than other giving options. For example, with a gift annuity, you donate assets directly to the charity, which is responsible for providing you with the annuity income. As a result, it is not possible to change the charity you wish to donate to or to benefit multiple charities with a single donation. In addition, not all charities offer gift annuities. And gift annuities are not appropriate for donating real estate or other "special" assets.

Charitable remainder trusts

Charitable remainder trusts are among the most popular charitable trusts. They allow you to provide current income for yourself (or someone else) and fulfill your charitable objective at the same time. In exchange for making irrevocable donations to the trust, you receive partial, immediate tax deductions while earning taxable income from the donated assets.

Upon your death or the termination of the trust, the remaining balance goes to your designated charity. If the designated charity is a donor-advised fund, your heirs can continue to participate in your legacy.



There are as many ways to give to charity as there are reasons for giving.

As you think about your reasons for giving and the options available, remember that your financial advisor can help ensure that your philanthropic efforts fit within your overall financial plan.

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