

Charitable Giving in a Slow Economy

By Thea Beatie, J.D., LL.M.

The slowing economy has presented challenges for professional advisors and their clients who are interested in charitable giving. The purpose of this article is to outline some strategies that may be effective in helping your clients fulfill their philanthropic objectives in this economy.

Despite the economic downturn, the growth in Americans' wealth over the last 40 years has been staggering. The recently released 2002 World Wealth Report created by Merrill Lynch and Cap Gemini Ernst & Young reveals that in the U.S. there were 2.1 million high-net-worth individuals at the end of last year, just slightly higher than the findings in the last report. Their combined wealth grew 1.7 percent to \$7.6 trillion. Meanwhile, the wealth of ultra-high-net-worth individuals in the U.S., individuals who have financial assets over \$30 million, also saw a 3 percent increase, to a total net worth of \$8.37 trillion.

Americans are among the most generous in the world, giving away \$212 billion in 2001, a 4% increase over 2000, according to Giving USA 2002, an annual report generated by the American Association of Fundraising Counsel's Trust for Philanthropy. Although the increase is most likely due in part to the events of September 11th, historically charitable giving has been hardy, remaining constant or even growing in recessionary periods.

Given that charitable intent still exists, the advisor's challenge is to match that intent to strategies that make sense in this economy. Some alternatives are:

Charitable Remainder Trusts

Even though the market is down, people still have capital gains in their

portfolios. In addition, studies by the Boston College Social Welfare Research Institute show that the majority of American wealth is held in nonfinancial assets, such as real estate and closely held companies, the value of which has remained steady. Many may be looking for a relatively safe, reliable income stream. By placing these assets in a charitable remainder trust clients can achieve these goals, while at the same time avoiding capital gains tax on the appreciated assets. Charitable remainder trusts might be just the strategy in these circumstances.

Charitable Gift Annuity

When markets are down, the amount that people may be able to give also decreases. In those instances where charitable remainder trusts may not be appropriate due to the size of the asset, a gift annuity offers many of the attributes of a charitable remainder trust at a lower dollar threshold. Here again is an opportunity for the client to transform assets that do not generate income, such as stocks that do not pay dividends, into a reliable income stream.

Gifts of Life Insurance

Many who purchased insurance as a way of paying the estate tax may no longer be in a taxable situation. These people may want to consider giving their insurance policies to charity or giving other assets (like retirement plans) to charity and keep the income tax-free insurance for their heirs.

Charitable Lead Trusts

The lower the interest rates, the lower the taxable value of the remainder interest in a charitable lead trust. In addition, under President Bush's tax bill, the



applicable credit amount for lifetime gifts is capped at \$1 million. With interest rates at all-time lows, lead trusts are an attractive way to provide a deferred inter-vivos inheritance and leverage the gift tax exemption.

Gifts to Public Charities

In general, a donor has the advantage of taking a larger deduction for gifts made to public charities than for gifts made to private foundations. This is because gifts of cash to public charities are deductible at 50% of adjusted gross income (AGI), while gifts of cash to private foundations are deductible only at 30% of AGI. Gifts of appreciated property to public charities are deductible at 30% of AGI, while gifts of appreciated property to private foundations are deductible at only 20% of AGI. In this economy, clients may be more tax-conscious and may be influenced by the ability to take large deductions in the year the gift is made.

The weak economy presents challenges for charitably minded clients and their advisors. However, the strategies discussed here are effective in this economy and may help your clients meet their philanthropic goals.

Thea Beatie is with the Oakland law firm of Plageman, Lund & Miller LLP. Previously Beatie served as president of BPM Goldman Financial Design. Her expertise lies in tax, estate and financial planning.

YEAR-END TAX PLANNING WITH DONOR ADVISED FUNDS

Your clients can solve year-end tax planning problems by establishing a donor advised fund at the East Bay Community Foundation. By establishing a fund, donors reduce their adjusted gross income by the size of their gift to the fund and avoid paying capital gains tax if the contributed assets have appreciated. In addition, they will reduce the size of their taxable estate for estate tax purposes by the size of their gift.

The East Bay Community Foundation manages more than 250 donor advised funds ranging in size from \$5,000 to \$17,000,000. The Foundation's donor advised funds provide the following benefits:

flexibility

Donors can make gifts from their fund to support any number of charitable organizations and programs throughout Alameda and Contra Costa counties and elsewhere in the United States.

expertise

The Foundation can help donors identify worthwhile programs, evaluate the financial capabilities and program qualities of organizations and monitor grants to insure that funds are used as intended.

simplicity

Donor advised funds can be established in less than 30 minutes at little or no cost. Afterwards the Foundation takes care of all the paperwork and resulting reporting requirements.

For more information about donor advised funds and the advantages they offer, contact Chris Nicholson at 510/208.0819 or cnicholson@eastbaycf.org.

SUPPORTING FOUNDATIONS: POWERFUL ALTERNATIVES TO PRIVATE FOUNDATIONS

**Tuesday
October 15, 2002
4:00 p.m. to 6:00 p.m.**
cocktail reception follows

**Park Hyatt Hotel
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Darryl Ott
Shareholder
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\$30 registration fee

By E-mail: register@eastbaycf.org

By Phone: Jennifer Trepinski
510/208.0817

Send a check to:

East Bay Community Foundation
Attn: Jennifer Trepinski
200 Frank H. Ogawa Plaza
Oakland, CA 94612

Deadline for registration is October 8.

Learn why clients are establishing supporting foundations instead of private foundations. The program provides a comprehensive view of the establishment and operation of a supporting foundation. The presenters will focus on costs of establishing and operating a supporting foundation, donor control, role and composition of the board, and degree of advisor involvement. The program is suitable for advisors and their clients.



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De Domenico Building
200 Frank H. Ogawa Plaza
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