

KEY TAKEAWAYS

# Top Tools for HNW Philanthropy



**C**haritable planning represents a unique opportunity for advisors to enhance their relationships with clients. While more than 90% of high-net-worth families participate in charitable giving, only about one-quarter have received formal guidance on the best approach to it.

**As explored in our recent webinar on top tools for high-net-worth philanthropy,** Foundation Source Senior Managing Director Josh Stamer was joined in the conversation by Corient Capital Partners' Darren Henderson, who shared that philanthropic planning is one of the first topics his firm brings up with clients. The firm initially focuses on the family's philanthropic goals, then assesses with its clients which charitable-giving vehicles would be best suited to help meet those goals.

**The following are key points to keep in mind when you work with your clients on their philanthropic approach.**



## Two vehicles are particularly popular, each with its own pros and cons /

Once high-net-worth individuals decide they want to give in a more deliberate fashion, rather than simply engaging in direct annual gifting, they might consider charitable remainder trusts, charitable lead trusts, donor-advised funds, or private foundations. The right vehicle depends on several factors, among them the family's financial situation, their estate-planning and philanthropic goals, and tax impact.

Donor-advised funds (DAFs) and private foundations tend to be the most popular vehicles. Both enjoy significant tax advantages, and donations to each are irrevocable. But they're structured differently, and each has its own pros and cons.

DAFs are accounts held within a public-charity sponsor: typically, an independent organization, a financial organization, or a community foundation. They tend to be the easiest options to set up, and they require lower initial contribution levels (often as low as \$5,000) making it simple to get started quickly.

In terms of disadvantages, DAFs have limited flexibility for entrepreneurial-minded philanthropists. Grants must go to 501(c)(3) charities, and the donors recommend gifts or grants to the sponsor but do not have the final decision. Additionally, DAFs do not allow donors to leverage charitable expenses, and there is no option to switch it to a private foundation later.

Private foundations, by contrast, are legal entities set up as either a trust or a corporation, and they are governed by an individual, family, or business. The capital requirements are higher than DAFs and most appropriate for people who can endow them with \$1 million or more.

Private foundations provide more flexibility for donors in terms of how they can use their money and the types of assets that can be held. Donors can leverage expenses to meet their giving requirements, and they can opt to switch the foundation to a DAF later on. Private foundations also offer a more extensive toolkit for pursuing philanthropy, as well as more control over the investment strategy—and they do not require liquidation of complex assets in order for the donor to give. In addition, the donor retains full control over both the investment allocation and the foundation's distributions.



## The best solution is often a combination of these two vehicles /

A diversified approach to philanthropic giving, much like for a financial portfolio, offers a number of advantages—and among these is the ability to maximize each vehicle's specific tax breaks. That's particularly important for donors who, for example, had a liquidity event and want to donate a significant portion of their adjusted gross income (AGI) in a specific tax year.

For a DAF, donors can deduct cash contributions equaling up to 60% of their adjusted gross income, and up to 30% for other assets. For private foundations, meanwhile, deductions can be made for contributions worth up to 30% of AGI for cash and 20% for long-term appreciated stock.

Many donors view their foundation as a perpetual giving vehicle, so funding it helps create an endowment to ensure the family's giving for generations to come. However, viewed through that lens, it can work well in conjunction with one or more DAFs.

Donors often direct the first tranche of their giving to their family foundation, with overflow going to a DAF. A foundation can serve as a central holding for assets, which it can then distribute over time to board members or a family DAF in order to satisfy the foundation's annual 5% minimum distribution requirement. Donors may also distribute their contributions based on asset class, giving cash and stock to the DAF while alternative investments or real estate are directed to the foundation.



## It's important to have the right team in place /

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As with many matters of financial and estate planning, input from a range of professionals is required to successfully execute a philanthropic strategy that achieves a family's charitable giving and legacy goals, takes advantage of all available tax benefits, and is sustainable over time. A CPA, for instance, can help a family determine the exact dollar amount (typically not a round number) that they can contribute to stay within the 60% limits for a DAF or 30% for a private foundation. They can also help donors determine whether their best tax move would be to donate appreciated stock to a DAF or a foundation before or after a liquidity event.

As an advisor, you'll want to connect with your client's tax attorney, accountant, and trust and estate specialist — as well as with an organization, like Foundation Source, that has expertise in setting up the chosen charitable vehicle. When your client has the right team in place, they can focus on their philanthropic mission and family legacy objectives, rather than the logistics of setting up their foundation or DAF.

To learn more about these three takeaways, and other important insights from Josh and Darren, [check out the full discussion](#).

### HAVE A QUESTION?

Call 800.839.0054 or send us an email at [info@foundationsource.com](mailto:info@foundationsource.com).

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