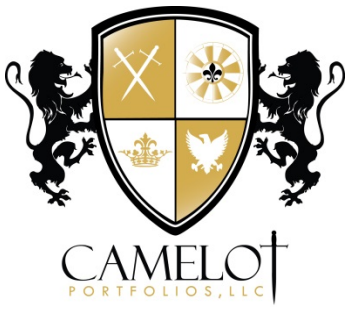

Three Useful Tools for Generous Investors

Understanding how DAFs, CRTs, and CLTs can be used to leverage giving for generous clients

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Understanding the vast universe of charitable tools can be overwhelming for those not working specifically in gift planning. Having a basic working knowledge of some of the more common tools can help you better identify when they may be appropriate for a client relationship, when to pull in a qualified professional for final recommendations, and to aid in your understanding of how the overall plan will ultimately impact your clients financial wellbeing. Similar to complex situations that may require additional tax or estate planning (charitable planning involves both), it is important that a qualified professional makes the final recommendations and for the advisor to understand how those recommendations impact their role in serving the client.

All of the charitable vehicles that we will be covering in this article can be funded with cash, complex assets, or marketable securities. Being strategic about funding the tool is an important consideration in the charitable planning process, especially when your client has highly appreciated assets.

Donor Advised Fund

Gift Now, Grant Later

Donor Advised Funds (DAF) are an excellent charitable vehicle that offer the donor a way to get an immediate tax deduction for future grantmaking purposes. Because the deduction is immediate the gift is irrevocable. The assets that fund the account can be professionally managed by an advisor(s) similar to larger endowments. An important aspect of DAFs is that the outgoing grants are "advised" by the client, not controlled by the client. Though it is very rare that a client's grant recommendations are not honored, it is an important aspect to point out for clients who want to maintain complete control over the grantmaking process.

Charitable Remainder Trust

Give the tree, keep the fruit

A Charitable Remainder Trust is great for clients that want to receive an income stream while living but are willing to gift the remaining assets when the trust term ends. Some clients may include their favorite charity in their will in effort to provide a similar gift amount but they do not reap the benefits of the income tax deduction provided by a CRT which could ultimately mean a larger gift for their favorite non-profit. CRTs must pay a minimum income of 5% annually, and have a remainder interest of at least 10%.

Charitable Lead Trust
Give the fruit, keep the tree

A Charitable Lead Trust will pay an income stream to one or more charities for a predetermined amount of time in accordance with the trust document. CLTs are generally used for large gifts or $1M or more and are generally used as a way to reduce or "zero-out" an estate from a technical perspective.

Unitrust vs. Annuity Trust

Both CRTs and CLTs have different income stream options that play an important role in determining the amount of income and size of the gift that is paid out. The Unitrust election pays a fixed percentage based on the amount of assets in the trust, so if trust grows/shrinks the income stream will also grow/shrink. An Annuity election pays a fixed income amount and remains consistent throughout the life of the trust.

The election may also impact the client's ability to make future contributions to the trust. For example, a client can make future contributions to a CRUT but not a CRAT. These important details illustrate why consulting with another professional is so important when implementing a plan.

Which tool might be appropriate to mention to different clients based on size of gift and ability to control grants?

Below is a chart that we created to help advisors visualize which tools might be worth exploring depending on the different objectives of an individual client. Because of the level of complexity that comes with charitable planning you will want to lean on the expert that will be delivering the final tool (often an estate planning attorney) to make the final recommendation. Considering that we are only comparing three types of charitable giving vehicles, this is by no means a comprehensive chart.

Charitable Vehicle	Income Tax Deduction Amount	Typical Minimum Gift Size	Grant Beneficiary Control
Donor Advised Fund	100% of Donation*	$5,000	Advisory Only
Charitable Remainder Trust	Remainder Interest	$50,000	Complete
Charitable Lead Trust	Depends on type of CLT	$1M+	Complete

**Subject to AGI Deduction Limits*

Expert Tips: A survey of high net worth clients pointed out that advisors often focus on the wrong aspects of charitable planning with clients. What client's value most is the professional's ability to align their wealth with their ability to make a difference, not how much the plan will save them because of the tax deduction. Having a working knowledge of the tools is important for implementation, but clients are much more concerned discussing the intent of their giving and are almost always willing to let the professional handle the technical aspect of the plan. Advisors who take the time to discuss charitable

outcomes with clients as a part of their discovery effort and ongoing service model will experience much deeper client relationships.

About the author: Matthew Moses is a Chartered Advisor in Philanthropy (CAP®) and Advisor Consultant for Independent Financial Advisors. He regularly works to bring the non-profit community together with financial professionals in an effort to create additional giving capacity for donors by using advanced charitable and investment planning techniques. Email him at mmoses@camelotportfolios.com for more information. CAM A042