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Philanthropy 101

In recent years, non-profit and charitable organizations, such as churches, synagogues, community foundations and institutions of higher education, among others, have been promoting the virtues of philanthropy in order to encourage individuals and families to give of their time and treasure.

The goal of these organizations is obvious and, often, compelling. In order to discharge their respective missions to serve a portion of our community that needs help, they need your money. If these organizations have been successful and have struck a charitable chord in you, then they can also provide a means to fulfill your philanthropic or eleemosynary wishes.

What isn't always obvious is that you, the donor, have many different ways that you can give, using tools (and a vocabulary!) that may require an explanation.

Many charitable organizations set up various kinds of funds that are used to encourage donors to make gifts. Some funds are set up to receive annual gifts, some are set up to receive pledges, and some are set up to receive planned gifts. Organizations may use different criteria for each fund, but they all boil down to three different approaches.

First, if recognition is not a factor for the donor, a gift can be made to an unrestricted fund or an endowment fund. An *unrestricted fund* is used in any manner the governing board of the charitable organization determines to be appropriate to support the organization.

An *endowment fund* is fund that provides an investment in the future. With such a fund, donations are held, invested and reinvested, with only 5% each year coming out of the endowment fund for charitable purposes. The sort of arrangement normally allows such funds to grow, creating an ever-increasing cash flow for the community. Such a fund is designed to provide funding in good times and bad because it truly is a savings account that can be drawn upon when needed.

Second, if a donor wishes to be recognized, named fund can be used. A *named fund* is a fund that will perpetually carry the name of the donor or the donor's family. A named fund is usually either a part of the endowment fund to be used for general purposes, or as a donor-advised fund.

A *donor advised fund* is fund that can be established by a donor, but instead of the charitable organization deciding how the funds will be distributed to benefit the community, the donor or the donor's family will provide that guidance.

Third, instead of making a charitable contribution today, a donor can make a planned or future gift. A *planned gift* is really a promise to make a charitable contribution upon the death of the donor.

For example, a donor could include a provision in his Last Will and Testament that a percentage of the donor's estate or a cash bequest will paid to the charitable organization upon the death of the donor. This is called a *specific bequest* and is really quite easy to include in one's Will.

There are many variations on a planned gift. For example, a donor could purchase a life insurance policy. Annual premium payments can be deducted as a charitable donation, but only if that organization is named as both the owner and the beneficiary of that policy.

Charitable remainder trusts can also be used for planned giving to receive donations, especially if those donations are of highly appreciated assets, such as stocks and bonds. These trusts are established by the donor, and, during the lifetime of the donor, the donor may receive an annuity payment based on a predetermined rate of return.

The easiest way to make a charitable contribution is simply to write a check or donate cash. However, under recently passed Pension Protection Act of 2006 (PPA), a charitable organization must provide a receipt for every donation, and a donor must have this receipt, a cancelled



check or a credit card receipt in order to take a tax deduction.

The PPA will also make it more difficult to make non-cash charitable contributions. Any non-cash contribution must be in “good condition,” whatever that term means since it is not defined in the PPA. Some caution is urged since, ultimately, the donor, as a taxpayer, may have to stand behind any donation.

The Pension Protection Act does provides a benefit that some may wish to use. If the donor is over 70 ½ years of age, the donor may give up to \$100,000 directly from an individual retirement account (IRA) to a charitable organization for any purpose except donor-advised funds. Right now, these gifts may only be made for tax years 2006 and 2007. This transaction will not be recognized as “income” to the donor, so there are no adverse tax limitations for the donor; however, since the distribution is not considered as taxable income to the donor, it will not be tax deductible either.

Whatever tool is used, whatever amount is given, charitable-giving decisions should include your entire family. Decisions about how such gifts should be made, what charitable organizations should be supported, and the amounts of any donations are all decisions that really involve your family. Make them a part of this process now; the ethic of supporting one’s community through charitable giving may be the very best gift you can ever give to your family.