

MULTI-GENERATIONAL PHILANTHROPY: Gifting Structure Options

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Article Author



Jay Winston, CFP®, CAP®
Associate Wealth Manager



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The most significant thing we can pass on to the next generation isn't monetary or physical, but the lessons we teach and the values we instill on how to be a good and upstanding person. By using gifting structures that span generations, we can inspire and teach the next wave both by leading by example as well as involving them in a collaborative effort that connects money with meaning and bonds the family over shared principles. In this article, we'll look at a few of the tools available that can help establish a tradition of giving and passing on a legacy of generosity.



Outright and Unrestricted Gifts

Multi-generational philanthropy does not need to be complex, expensive, or rigid. It starts with intention and action. This can be as simple as starting the tradition of a yearly family meeting, possibly around a holiday gathering, where everyone agrees on a charity to support that year by means of an outright gift, each to their ability. It could also be volunteering or attending charitable events together. The important part is starting the conversation, creating engagement, and getting the family involved together on a regular basis to establish a custom of giving and establishing family values that are meant to last.

The largest benefit of unrestricted gifts are their simplicity and flexibility. This is the most common type of giving, and can be as simple as giving cash, writing a check, or transferring securities. There's no need to establish a gifting agreement with the charity of choice, and new causes can be selected for support each year. Every contributing family member can give what they can, in a way that is most in line with their financial and tax situation. Younger family members should be encouraged to engage in the conversation about what's important to them and to contribute a portion of financial gifts they've received as a way to be active participants in the process.

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Donor-Advised Funds

A donor-advised fund, or DAF, is a charitable giving account held by a sponsoring organization that can serve as a low-cost, flexible vehicle to enable multi-generational giving. It is established by an original donor, who then takes on an advisory role over the account and makes recommendations on the disbursement amounts and recipients. DAFs offer immediate deductions for contributions, which can include cash, securities, or other complex assets (depending on the specifics of the DAF). They also allow for donation 'bunching,' which can maximize tax deductions by making several years' worth of donations in a single year. Assets in a DAF can be held and invested within the fund, and donations made can be kept anonymous. A donor-advised fund is ideal for when you want to establish a lasting giving entity but want to avoid the complex processes and expensive costs of a private foundation.

What makes a DAF a great tool for intergenerational giving is that the original donor can easily name successors to take over advisory privileges of the fund. With the right type of DAF, the successors can name successors and so on, keeping the fund active and under the advisement of the family in perpetuity. DAFs can receive donations from any willing family member, and it's easy to establish informal roles around 'managing the fund.' That is to say: if you wanted to increase family member participation around the distribution decisions, you could assign roles across the generations, putting younger ones in charge of research, due diligence, or reporting, for example. You could set up a family meeting structure to apportion responsibilities and decide how rigid you want to make the requirements for different responsibilities. It's a great opportunity to lead by example and teach the next generations how to give effectively and practice diligence.

It should be noted that not all DAFs are the same, and it is important to consult a professional to understand the restrictions and benefits of a specific fund. There are also a few drawbacks to consider. A donor does not legally have control over the fund; they take on an advisory role. In most cases, the sponsoring organization takes the donor's directives for distributions and investments without issue, but ultimately, they are subject to the policies of the charity or sponsor organization maintaining the fund. Some DAFs are very restrictive in contract details, including succession, investment options, and distribution requirements, while others are more lenient. It is important to review policy details to ensure that you are establishing the right type of fund for your family that will serve the purposes you need.



Private Family Foundations

Private foundations are nonprofit legal entities created for charitable purposes, most commonly established to manage an endowment. They either run their own programs as operating foundations or exist to distribute grants to support other charities as a non-operating foundation. Being their own tax-exempt entities, they have stringent legal, structural, reporting, and tax requirements, which tend to be stricter than a public charity. They are regulated by both the IRS and state charitable law and have a yearly minimum payout of their total fair market value. They also have less favorable tax treatment for the donation tax deduction for donors contributing to the foundation. The high start-up cost, continued administrative costs, and time requirements it takes to start and operate a private foundation can be restrictive and most likely not worth it if the initial donation is under one million dollars. However, for the right family and situation, private foundations can be incredibly powerful tools for establishing a lasting legacy and bringing the family together to a shared charitable mission.

Once established, a private foundation is managed by a small group of board members or trustees. As a tool for multi-generational giving, these positions would be held by members of the family, bringing them together for regular meetings to focus on the mission and make decisions for the foundation, centering their shared vision and values, and pulling them together to pool their efforts. There is a high level of responsibility in running a foundation, and it asks a lot from its members but like with most things, you get out what you put in.

Participation in the continued philanthropic mission pulls the family together and provides opportunities for younger generations to learn and participate. Young members can sit on junior boards or assist in the various committees within the foundation, gaining ample opportunities to learn about responsible giving, organizational management, and finance. Voting can be structured to best fit the needs of the family by establishing different tiers of board members, giving all family members a say in the foundation, but with older generations holding more weight. A private family foundation can be a significant investment of both time and money but can pay back in the bonds of the family and a long-lasting legacy.



Charitable Lead Trusts

Charitable lead trusts, also known as CLTs, are trusts that make annual payments to one or more charities over a set period of time and then transfer the remaining value to a beneficiary once the trust expires. They can be considered grantor or non-grantor trusts, depending on how they are set up.

In a grantor trust, the grantor will be able to take charitable income tax deductions in the year the trust is created—up to the individual IRS limitation—but also must include the trust's income as their income in future years. A non-grantor CLT is a separate tax-paying entity; it pays its own income tax, offset by its charitable contributions, and serves the ultimate benefit of gift/estate tax reduction on remainder interest going to heirs. These tools are generally less common multi-generational gifting tools, and when they are employed, they are commonly used to fund a DAF or private foundation.

Just like in the previously reviewed methods, a CLT can be used as the means of disbursing charitable donations at the direction of the family. Because they are not nearly as complicated as a private foundation, there is a lot more flexibility on how to structure family meetings around giving decisions. One significant difference is that at the expiration of the trust, there will be a wealth transfer to the family. Also, the grantor cannot be main person advising the trust—especially with non-grantor trusts—as it may void the effort to remove the assets from their estate if they have too much control. CLTs are complex and proper due diligence is necessary in deciding whether they are the right tool for the job. CLTs may be worth considering in a circumstance where both transferring wealth to the next generation and establishing a yearly tradition of giving are priorities.

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Final Thoughts

There are many options available to those wishing to set up a gifting structure that will last generations. Choosing which one is for right for your family and circumstances depends on your priorities, your resources, and your objectives. A great first step if you are looking to explore some of these concepts would be to speak with an experienced advisor about your goals and priorities, then work together on a strategy. Giving together brings families together; the values we instill and the way we inspire are our greatest legacy.

Coldstream can help.

As always, we are here to help; we'd love to have a conversation about ways you may be able to achieve your philanthropic legacy. Reach out at 425.283.1600 or info@coldstream.com.

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