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A Bigger Giving Tree

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Charitable giving continues to climb this year, even if you don't count the $2.1 billion gift Warren Buffett threw in the pot in July.

Donors and charities are feeling more confident as the economy and markets improve, according to those who track charitable giving, and the trend is expected to continue.

Financial advisors, who say there are a number of different tools to use for all levels of philanthropy, stress that an individual or family does not have to be a Buffett or a Rockefeller to have an impact.

The Omaha, Neb.-based billionaire Buffett made his biggest contribution yet, $2.1 billion, to the Bill and Melinda Gates Foundation in July. That topped his $2 billion donation to the foundation last year.

Others increased their giving, too. Last year, Americans gave $335.17 billion, a 4.4% increase over 2011. It was the fourth consecutive year of growth, according to the Giving USA 2014 report by the Giving USA Foundation and the Indiana University Lilly Family School of Philanthropy. Adjusted for inflation, the amount almost reaches the peak seen before the Great Recession.

Individuals made up the bulk (72%) of the giving, accounting for $241.32 billion, according to the report, followed by foundations at $50.28 billion, bequests at $26.81 billion and corporations at $16.76 billion. The largest share (31%) of that money goes to religion, but education has seen the biggest increase, with an 8.9% jump over 2012, the report says.

Financial advisors feel they play a crucial role in this picture of growing philanthropy.

Tax laws are continually changing, giving rise to confusion among those who want to donate but also want to take advantage of any credits or deductions they can receive. For instance, a bill in Congress would allow taxpayers who are at least 70.5 years of age to donate up to $100,000 from their IRAs without having to treat the money as taxable income. But the bill, which has passed by an overwhelming margin in the House of Representatives, is still waiting for approval in the Senate, which is not expected to act until after the November elections. That leaves potential donors not knowing until the end of the year whether they will have to pay income tax on these donations.

"That expertise is what the financial advisor can bring to the table," says Rob Blume, managing director of Washington Trust's Wealth Management and Advisory Service, based in Washington, Oregon and Idaho. "An advisor can simply and fully explain to the client the implications as taxes become more complex. Usually there is not a lot of advantage to waiting until later in the year to make a donation because you do not know if the market will decline. This year, if you give early and then Congress acts, you get the income tax reduction; if they do not, you still get the deduction for making a charitable contribution."

Blume notes that both givers and receivers are feeling more comfortable now. “We are seeing more interest in planned giving for the future, rather than one-time cash donations, because people are feeling more secure,” he says. “Charities are breathing a sigh of relief also. Many started capital campaigns in 2006 but then pulled back when the recession hit. Now they are renewing those campaigns.”

Advisors are also needed to look at where the gift is going, according to Peter J. Klein, managing director and partner at HighTower's Klein Wealth Management in Melville, N.Y. Klein is the author of A Passion for Giving: Tools and Inspiration for Creating a Charitable Foundation.

"Financial advisors need to get into the heart and head of the client who is funding a foundation and see what they are passionate about," Klein says. "The client can feel good about giving to many charities, but maybe it would make more sense to donate to one or two that he is really passionate about rather than have haphazard giving. Then the client can feel like he is moving the proverbial needle in the community. This is the kind of thing an advisor should be mindful of."

The type of vehicle used for giving is also open for debate, and an advisor can help a client make that decision, says Jean Gordon Carter, a partner in the law firm of Hunton & Williams in Raleigh, N.C., which deals with charitable giving issues.

"Advisors need to step back and make sure the giving vehicle makes sense for the client," she says. "There is a lot of interest in charitable lead trusts, charitable remainder trusts, donor-advised funds and foundations as giving mechanisms."

"For instance, the standard rule for a foundation is that you need $1 million to start it, but I doubt the paperwork is worth it at that level," Carter says. "You might want to swing back to a donor-advised fund, which has less paperwork and the donations go straight to the charity of the client's choice." The recipients can be decided as time goes along.

"In any instance, you have to pay someone to make the plan work, but the expense is worth it to make sure the client's goals are fulfilled," she adds.

There are also different trusts to pursue, and sometimes clients must decide between a charitable lead trust and a charitable remainder trust. Both can be useful, depending on the client's needs, says Scott Bishop, an advisor with STA Wealth Management in Houston.

Charitable lead trusts pay a charity for a certain period of years, and then the principal reverts back to the donor or to beneficiaries at the time of the donor's death. These trusts are advantageous to the donor while interest rates are low, because the trust's income is limited.

Charitable remainder trusts are the opposite. From these, the donor receives an income for a number of years and the remainder goes to the charity.

"There is also the option of donating to a community foundation," Bishop says. "The donor loses control of the money once it is contributed, but there are many community foundations that work on specific community needs, such as education, the environment or religions.

"There are other techniques that a person can use," he continues, "such as putting cash in mutual funds and then donating the appreciated account to charity. The donor gets full value for the donation but does not have to pay capital gains tax."

Amy Danforth, president of Fidelity Charitable, says there is a misconception that donor-advised funds are for those people making midsize gifts and that foundations are for the very wealthy, but notes this is not always true. She says some Fidelity families are giving through both.

“One client had a family foundation, but the children of the founders had different interests, so he opened four donor-advised funds, one for each child,” Danforth says.

“It is important for advisors to incorporate philanthropy into their practices. The ultra-high-net-worth and high-net-worth clients want to give, and they would welcome the advisor’s involvement in choosing the right vehicle, who to give to and how much to give,” she adds.

Some changes are happening as a younger generation takes over the gifting, note advisors. “There is an increase in multiple generational giving that is a true trend and not just a fad,” says Chris Page, executive vice president at Rockefeller Philanthropy Advisors. “The younger donors also are taking a more long-term approach. They want to find the leverage points where they can make a real difference.”

Rockefeller helps financial advisors and their clients direct their philanthropic ideas. “We talk about motivations with the advisors and their clients and where they want to make social changes,” Page says. “Younger donors seem to have a deeper engagement in the larger world. They are using bigger, bolder donations for specific purposes.”

One of his clients helped fund an organization providing water to people on the Texas-Mexico border, but then she felt there was an even bigger need for housing. She gave a substantial sum through a grant and loans to use local labor to improve housing conditions.

In order to help with these types of donations, the advisor needs to know the client extremely well, says Wistar Morris, a principal at Signature, a wealth management and financial company in northern Virginia. “An advisor has to understand what is most valuable to each client. An advisor who knows his clients well will use a technique for giving that makes sense to them. The tech generation is more hands-on and more interested in having a direct impact.

“From a practice perspective, helping clients reach their philanthropic goals is one of the most fun and rewarding things an advisor can work on,” Morris says.