

An Introductory Guide to Charitable Gifting to Sustain Your Legacy



By [Mark Peters](#), CFA, *Managing Director*

Paths to Gifting

Families can sustain their legacy through charitable gifts of cash, personal time, and expertise, and appreciated securities. These gifts can be made directly to a charity, or through a more formal account structure such as a donor-advised fund (“DAF”) or a private foundation.

What can you gift?

1. Time and expertise

Individuals can give their time and expertise to charitable organizations. Volunteers are not compensated in a monetary form but are often rewarded by the delight that comes from "giving back" and making a difference in their community.

2. Cash

Families can strengthen their family legacy by gifting cash to causes and charities that align with their values. Cash gifting (including by check) is simple and can make sense for small gifts such as those less than the minimum grant size for those with a DAF (minimums range from \$50-\$500 depending on the DAF), or for slightly larger gifts for those without a DAF where gifting securities would entail too much complexity.

3. Appreciated Securities

By [gifting appreciated securities](#) to a charity, a donor receives a tax benefit based on the security's fair market value on the date of donation, but only if the shares have been held for at least one year. If the shares belong to a private company, an appraisal or other determination of fair value is necessary. The deductible amount is the lesser of the cost basis of the shares or their fair market value if they have been held for less than one year. By gifting appreciated securities held longer than one year, the donor can exit the position without paying a tax on the gains in the security (the amount that fair market value is above the cost of security) since the gains are not “realized”. In addition, they will receive a tax benefit based on the fair market value of the appreciated securities gifted.

Where can you make the gift?

Directly to a charity

Families and their businesses can sustain or expand their legacy and values by giving directly to a charitable organization.

1. Charitable Vehicles: Donor Advised Funds and Private Foundations

Donor Advised Funds (DAFs) and Private Foundations are vehicles that a donor can use to pre-fund charitable giving that they would like to do in future years. The donors receive a charitable tax deduction in the year that they fund the vehicle, which then holds and invests the funds in a tax-advantaged account structure until the donor (or the donor's family) is ready to make the distributions out of the vehicle for the benefit of the ultimate beneficiaries. Such vehicles frequently outlive their benefactors, allowing the donor's family to continue their philanthropic legacy over their own lifetimes and strengthening family relationships through shared values that focus on causes that family members choose to support.

2. Donor Advised Funds (DAFs)

A [Donor Advised Fund](#) is a charitable account that is created and maintained by a public charity, which is called the sponsoring organization. Donors benefit by being able to give on their own timeline with a lower administrative burden than a private foundation.

3. Private Foundations

A [private foundation](#) is a 501(c)(3) organization set up solely for charitable purposes. Private foundations allow for more control than DAFs. They can have employees which can include family members and can engage in direct charitable activity not possible with DAFs, such as grants of scholarships directly to individuals. That said, they come with added complexity and

administrative expense. Due to set-up and ongoing administrative costs, private foundations will typically not make sense for funding amounts below \$5 million. They are required to gift at least 5% of their assets each year, and gifting and financial details of private foundations must be disclosed in annual reports, which are available to the public, whereas DAFs do not have gifting requirements and can be completely anonymous. Private foundations also have a [lower deductibility cap](#), modest [excise taxes](#) on net investment income, and a loss of tax exemption status if the organization fails to meet [regulatory requirements](#) set by the IRS.

When choosing between a DAF and a private foundation, a donor must consider the amount of the donation, the gifting objectives, family involvement and desired public exposure. Although beyond the scope of this article, a hybrid account structure, such as a Charitable Lead Trust or a Charitable Remainder Trust, might be well suited to a donor's objectives. The advantages and disadvantages of these account structures should be discussed with advisors.

Note: Donors are encouraged to ensure their donations do not lead to unintended consequences. While the intent of a donation may be positive, it is important that such funds foster accountability, encourage the wise use of resources, support the development of talent, and provide pressure to reform inefficient policies and institutions. Donors should strive to avoid negative consequences that may reinforce the [vicious cycle of poverty](#).

Disclosure

This communication and its content are for informational and educational purposes only and should not be used as the basis for any investment decision. The information contained herein is based on publicly available sources believed to be reliable but is not a representation, expressed or implied, as to its accuracy, completeness or correctness. No information available through this communication is intended or should be construed as any advice, recommendation or endorsement from us as to any legal, tax, investment or other matters, nor shall be considered a solicitation or offer to buy or sell any security, future, option or other financial instrument or to offer or provide any investment advice or service to any person in any jurisdiction. Nothing contained in this communication constitutes investment advice or offers any opinion with respect to the suitability of any security, and this communication has no regard to the specific investment objectives, financial situation and particular needs of any specific recipient. Past performance is no guarantee of future results. Additional information and disclosure on Pathstone is available via our Form ADV, Part 2A, which is available upon request or at www.adviserinfo.sec.gov.

Any tax advice contained herein, including attachments, is not intended or written to be used, and cannot be used, by a taxpayer for the purpose of (i) avoiding tax penalties that may be imposed on the taxpayer or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein.