

The Gift that Keeps on Giving: Multiyear Commitments ©

Community Foundations of America

Multiyear gifts have benefits for both donors and the charities they support. Donors can lend support to their favorite causes over the long term while receiving tax deductions over multiple years. Charities benefit by receiving money now, while at the same time anticipating future funds.

Besides supporting their favorite causes, donors choose to make multiyear pledges for several reasons. Tax considerations are key. "Sometimes a donor will need to spread a charitable gift over several tax years, because the tax laws may prevent the donor from deducting the full value of the gift in a single year," explains John Sare, Esq., partner in the trusts and estates department of Milbank, Tweed, Hadley & McCloy LLP in New York.

Boosting Tax Benefits

For cash gifts to public charities, your deduction cannot exceed 50 percent of your adjusted gross income (AGI). For stocks, real estate and works of art or jewelry, the threshold is 30 percent. Still lower thresholds apply if the recipient is a private foundation. The donor has six years in which to take the deduction (the year of the gift plus the next five tax years). Depending on your income and the size of your gifts, you may still exceed your AGI limitations and wish to extend the rollover period by making gifts over several tax years. A good tax accountant, working with your advisor, can help sort out these issues.

Multiyear gifts can also impact capital gains taxes. Some donors may have relatively low incomes but sizeable assets in the form of real estate or stocks. "By gifting property or stocks, you can avoid the 15 percent capital gains tax on the appreciated property. The charity, being a non-profit, is exempt from paying taxes, too," says Scot Kirkpatrick, Esq., head of trusts and estates with Chamberlain, Hrdlicka, White, Williams & Martin in Atlanta.

Some donors still exceed their AGI limit when making gifts of assets, says Richard Hohol, a tax accountant and owner of Chartered Consultants, Inc., an accounting, income tax and financial planning firm in Bloomingdale, Illinois. "In those cases, the charitable intent often outweighs the tax reasons," he says.

Increasing Flexibility in Your Giving

Besides tax efficiency, multiyear pledges offer other kinds of flexibility, says Jack Sawyer, Esq., partner with Alston & Bird in Atlanta. Some donors may have cash flow issues now, but are expecting a future financial event such as the sale of a company or the settling of an estate, he says. That enables them to jumpstart the giving process while still reevaluating their pledge in light of their future financial situation.

Conversely, some donors may receive a windfall in one year that they want to use to support their favorite charities. Instead of donating it all at once to a charity, you could set up a donor advised fund at a community foundation and plan to make grants over several years. Establishing a donor advised fund from a windfall also allows you to do multiyear giving without worrying about fluctuations in your ability to give from annual income.

Working with a Community Foundation

Through a donor advised fund, donors can recommend where their money goes, whether it's to fund an appropriate position, to jumpstart a capital drive, to roll out a new program, or even to save the institution itself. Community foundations can help by conducting due diligence on organizations or helping donors identify where the need is greatest.

"Some donors indicate that they just want their money to go to education, so we do research on where that money could go," says Hans Dekker, president of the Community Foundation of New Jersey in Morristown. "Other times the request is very specific. They want a certain sum to go to medical research at Princeton, for example, so we will look into the viability of the project and the reputation of the institution."

Donor-advised funds take on fiduciary responsibility for money received and must understand the motivations of the donor and conduct due diligence on the creditworthiness of the charity. Donors, too, should do their homework. Do you trust the charity? How has it used its money in the past? Is it viable? Is it fulfilling its mission? Site visits and involvement with the charity, whether on the advisory board or a project committee, are appropriate here.

The donor-advised fund makes every effort to fulfill the donors wishes, Dekker says. That includes a willingness to sit down to outline a multiyear giving strategy, whether that includes cash, assets, or vehicles such as trusts.

"Some donors want to set up a charitable remainder trust where the remainder interest flows into a donor-advised fund that their children can advise after the donor's death," says Joanne E. Johnson, managing director in the wealth advisory group at JP Morgan Private Bank in New York. Some wealthy individuals set up charitable lead interest trusts where the lead interest for the charity flows into the donor advised fund. The assets can grow tax efficiently over time, and they benefit donors, their families, and the causes that matter to them.

Despite the challenges and complexities, multiyear gifts can be rewarding for both donor and charity. Kirkpatrick, who handles both business and charitable negotiations, says charities are very accommodating. "They bend over backward to accommodate the donor, which can be very different from the business world. After all, it's a gift and the charity is grateful," he says.

Or as Dekker puts it, "I love when someone says, 'I want to give you this money now, and for the next

ten years as well."

Copyright 2004 Community Foundations of America
Used with permission