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'Tis the Season: Charitable Gift Considerations for Family Office Clients

SEQUOIA FINANCIAL GROUP

A successful philanthropic plan requires deep reflection and consideration of how charitable giving can impact estate planning.

TABLE OF CONTENTS

‘TIS THE SEASON:

CHARITABLE GIFT CONSIDERATIONS FOR FAMILY OFFICE CLIENTS

As many successful families are aware, with wealth comes opportunity. There is, of course, the opportunity to build the life you want for you and your family, potentially for generations to come. There is also the opportunity to make a lasting impact on the causes and communities you care about. An increasing number of high-net-worth (HNW) and ultra-high-net-worth (UHNW) families are doing just that. According to Altrata1, UHNW individuals donated a total of $190 billion to philanthropic causes in 2022, approximately 25% more than in 2018.

And while those acts of generosity can be incredibly meaningful and life-changing for the end recipients, it is important to understand that philanthropy is more than just a charitable act. A thoughtfully crafted philanthropic plan can provide a multitude of interrelated outcomes. Many philanthropic strategies have powerful tax benefits. Encouraging younger generations of a family to participate in the development of a philanthropic plan can align the family around the long-term vision for the family’s wealth, which can help to ensure a lasting legacy.

As wonderful as that all sounds, a successful philanthropic plan doesn't just happen. It requires deep reflection on a family's values and careful consideration of how charitable giving can impact estate planning. With the potential "sunset" of the current estate and gift exemption tax amount, which could be cut in half as of Jan. 1, 2026, unless Congress acts, the time is now for HNW and UHNW families to take a hard look at their charitable giving strategy.

Barriers to giving

As stated above, successful philanthropic giving doesn't just happen, with the most common barrier being a lack of planning. To be fair, even the most successful family likely does not have significant experience in creating charitable structures or vetting causes and nonprofits to support. Doing so can be incredibly complex, so it is essential to work with a team of advisors who are experienced in creating multi-faceted charitable giving strategies. Typically, a holistic gifting plan will include the following components:

- Goals for charitable impact
- Budget
- Time horizon
- Desired level of control
- Investment strategy

Each area above requires extensive conversations between a family and its advisors to ensure the best giving vehicles are employed and mechanisms for managing and tracking the impact of a family's generosity to ensure it is achieving the desired outcome. With that clarity and alignment in place, below are some specific giving strategies for HNW and UHNW families to consider in consultation with their advisors.

Strategies for giving

Many successful families are familiar with private foundations, which can help them achieve philanthropic goals. Establishing a private foundation can provide considerable control over charitable giving, allowing individuals and families to support causes they care about through grants, scholarships, and other programs. Foundations also offer tax advantages, such as deductions for contributions and reduced estate taxes.

However, private foundations are subject to more stringent tax laws and regulations than public charities. They are required to make charitable distributions annually (which are publicly viewable through tax filing forms) and pay an excise tax on net investment income.

For families who want to be more "hands-on" with their giving without navigating the private foundation rules, a **fiscal sponsorship fund** is considered a public charity and is well worth exploring. A fiscal sponsorship fund is a financial arrangement where a nonprofit organization (the sponsor) offers legal and tax-exempt status to support a project or initiative a family is passionate about. This arrangement allows the sponsored project to receive charitable donations without establishing its own nonprofit status. The sponsor handles administrative tasks, such as grant management and compliance, while the sponsored project focuses on its mission. This partnership can provide access to funding, resources, expertise, and tax-deductible donations.

Below are some specific scenarios where a fiscal sponsor fund could be advantageous:

- If the donor would like to raise funds (from friends, other donors, or foundations).
- If the donor would like to disburse charitable funds to foreign organizations.
- If the donor would like to give individuals a charitable gift, such as an educational scholarship.
- Paying vendors if a donor would like to put on an event to advance their charitable goals.

It is also worth noting that fiscal sponsorship platforms are open to various non-cash assets such as concentrated stock positions, closely held business interests, and real estate. Fiscal sponsorship funds can also be structured to extend generationally in alignment with a family's legacy plan.

An attractive estate planning tool that allows individuals to donate assets while still retaining an income stream is a **charitable remainder trust (CRT).** With a CRT, a type of irrevocable trust, the donor transfers assets, which can include cash or property, into the trust, which then pays the trust creator (or designated beneficiaries) a fixed or variable income for a specified period, often for life. After this period, the remaining assets in the trust are distributed to a designated charity. A CRT offers several benefits, including tax deductions, reduced estate taxes, and the ability to support charitable causes while still enjoying income from the assets.

The inverse of a CRT, a **charitable lead trust** (CLT) allows an individual to transfer assets into the trust, which pays a predetermined amount to one or more charities for a set term. After this term, the remaining assets are distributed to the donor's heirs, with any growth in assets passing to those heirs gift and estate tax-free. This arrangement can provide immediate income tax benefits through charitable deductions while also reducing the taxable estate for the donor's heirs.

Another powerful philanthropic strategy is qualified charitable distributions (QCDs), which allow individuals aged 70½ or older to donate up to $105,000 for 2024 (indexed for inflation) directly from an individual retirement account (IRA) to eligible charities without paying any income tax. QCDs not only fulfill required minimum distributions (RMDs) but also help reduce the donor's tax liabilities. Even better, by reducing the donor's IRA balance, a QCD may also reduce RMDs in future years, further lowering the donor's taxable estate and limiting any beneficiaries' tax liability.

Conclusion

Although we've just scratched the surface of charitable giving strategies in this article, it should be clear that philanthropy is a multifaceted endeavor that requires robust planning and, if done well, far exceeds simple charitable acts. Therefore, a thorough review of a family's charitable giving strategy should be part of regular reviews of a comprehensive financial plan, not just something to consider at year-end. When philanthropy is core to a family's overall financial plan, it can profoundly impact the people and causes a family cares about while enhancing their financial well-being long term.