

CHARITABLE GIVING AND MAKING AN IMPACT



Deb L. Kinney

DLKLawGroup PC

Imagine a world where there was no color—or a world where sound was never in stereo. It is only when people come together as a community with vision and generosity that we fully experience the world in its richness. Without philanthropy we would not enjoy or be able to access the arts, provide social service programs to those in need, or have the ability to make an impact on social justice. For all of us who do philanthropic giving, there must be a reason, or a motivation to make the world a richer place, to insure that others are cared for and to support passions.

In times such as they are, it may feel harder to continue to have such an impact, however in this new era of hope, there are many ways to still make a huge difference. Charitable giving takes many forms—hours of time, monetary contributions to organizations during life, and also gifting through estate planning. New times always provide for new opportunities and as philanthropic leaders in the community, there is no better time than now to reengage in thinking about how best to impact the causes and organizations that do the work every day.

Philanthropic giving takes thought. Planned giving takes planning. Many of us have, or hope to achieve financial stability in our lifetime. Despite the trying times now, many of us will accumulate enough wealth to see us through. So then we have choices about to whom we leave remaining assets and also how we leave those assets. Often we have people and passions that we care about and want to provide for all—with a little planning, this is possible.

Horizons Foundation as a Community Foundation

For more than 28 years, Horizons Foundation has been providing funds to organizations serving the LGBT community, continually vetting the organizations that are doing the best work in the arts, health and human services, youth and elder work, social justice work and other important areas. Horizons Foundation is able to make an impact through the generosity of its supporters and helps donors achieve their goals of positively impacting our community.

To that end, Horizons launched the LGBT Community Endowment Fund with a goal of building a \$100 million endowment to serve as a sustainable source of funding for our community. Most planned gifts left to Horizons Foundation are added to the Endowment

Fund, with donors having the opportunity to direct their gifts towards the causes or organizations about which they are passionate.

Horizons Foundation also has Donor Advised Funds (DAF) for lifetime giving as well as funds for testamentary giving. Donors use Horizons as a charitable beneficiary and make grant recommendations from their funds to support other non-profit organizations. Using a Horizons DAF puts a “lavender stamp” on LGBT dollars donated to important causes around the globe.

Any funds that remain in your DAF at the time of your passing can be transferred to a Testamentary Fund in your name and distributed according to your wishes.

Easiest Assets to Give – Tax Deferred Retirement Accounts

Most retirement accounts, and especially tax deferred retirement accounts, are a common means of saving for later. These accounts are managed by a company or institution and pass as a matter of law to a designated beneficiary. Other than ROTH IRAs, the deferred income tax that has been part of the account growing tax free will be collected by the government when paid out to you or a human beneficiary, leaving you or your beneficiary with the net amount only. However if your designated beneficiary is a charitable organization, none of the deferred income tax will be taken out and the charitable organization will receive 100% of each dollar. Should you use these assets up, (one can start taking distributions after age 59 ½ without penalty or choose to defer distributions until a later age) then you have used the asset. But if there is any remaining value in such an account, one is better leaving whole dollars (assets without tax liability) to people and these assets to a charitable organization.

A donor left her \$275,000 IRA to a Testamentary Fund established at Horizons Foundation in honor of her and her partner, with instructions advising that the proceeds be distributed in equal amounts to Horizons Foundation, NCLR, Openhouse, Lambda Legal and Smuin Ballet. Horizons made the other contributions in her name then added the portion passing to Horizons Foundation to the LGBT Community Endowment Fund.

Now is a great time to make sure that your designated beneficiaries are completed and up to date.

Lifetime Giving of Tax Deferred Accounts

One of the provisions of the Pension Protection Act of 2006 allowing tax free lifetime gifts from tax deferred retirement accounts by persons already 70 years of age or older has been extended. What this means is that if someone has a tax deferred account and would like to make a charitable distribution, they can choose to make the minimum required distribution (or some portion of it) directly to a charity, not incur any income tax liability on the charitable transfer and pass the gross amount including what would have been paid out to the government. This provision is a direct effort by the federal government to encourage charitable giving. The only caveat is that the gift MUST go directly from the institution holding the account to a charity to qualify, and cannot go into a donor-advised fund. Horizons Foundation is able to help disseminate such funds to other organizations on behalf of the donor within the same calendar year, but not through a donor-advised fund.

Other Assets

Many large organizations can take almost any type of gift—Horizons Foundation has made a concerted effort to make giving easy and can serve as a vehicle for other organizations that may not have such capacity. Typically appreciated assets (those with a low cost basis that would cause an income tax liability if sold) are often the asset that a donor may choose to transfer. When such an asset is transferred directly as part of charitable gifting, not only can the income tax liability be avoided, but most donors will also receive an income tax deduction that can be amortized over five years. Appreciated stock is the most common form of such a gift, but can also include other assets such as real estate (or portions of real estate), limited liability partnerships, and other more complicated appreciated assets.

Other Ideas

Many of us have heard at one time or another about Charitable Remainder Trusts and Charitable Lead Trusts. The concept is the same in that you or your designated human beneficiaries get some part of the gift and charity receives some part of the gift. Charitable Remainder Trusts allow for income to humans for up to two lives or a designated number of years not to exceed twenty, and remainder then goes to charity. Charitable Lead Trusts allow for income to a charity for a period of years with the remainder going to humans.

Both allow for appreciated assets to be transferred to a Trust, the asset is then sold by the Trust, and all of the proceeds are then reinvested to provide that income. This is especially brilliant with real estate that may have been bought years ago, is limited in the income potential possibly due to rent control or being vacant and would cause large income tax liability if sold. By transferring to Trust which then effectuates the sale, not only is the income tax liability avoided, but the donor of the appreciated asset also gets a charitable deduction for the amount passing to charity. With interest rates as low as they are, Charitable Lead Trusts are more favored currently. And for donors who may want to eventually leave to a younger beneficiary, these vehicles can accomplish many goals.

A Horizons donor had a three-unit building in the Castro which had appreciated greatly over the years, but due to rent control, he was no longer receiving a reasonable rate of return given the value of the asset. He also no longer wanted to be a landlord in retirement. He created a charitable remainder trust, deeded the property to the trust which in turn sold the property. The proceeds were then reinvested and he is receiving the income for his life, his partner will also receive income for his life, and only after they both pass will Horizons receive the remainder. The initial income stream exceeded what he had been realizing in rent, the charitable deductions nearly zeroed out his income tax liability for five years and he has assurances that his partner will be provided for also should he predecease.

Estate Planning

No matter the composition of one's assets, leaving a percentage or a specific amount to a charitable organization or organizations provides for lasting impact in the community and can be tax advantageous. The amount that one can leave estate tax free is currently \$3.5 million - anything over that is taxed at 45%. Although the current law provides for the repeal of any estate tax for one year in 2010, the new administration will likely freeze the tax exempt amount at its current level prior to any repeal going into effect in 2010. A straw vote was held late last year, and there seems that there is enough support in Congress to maintain the current \$3.5M exemption. Stay tuned for updates as Congress votes on this.

Particular Considerations for the LGBT Community and Estate Planning

Those of us who may be in relationship may have other planning considerations. If we are married or in a California State Registered Domestic Partnership or other legally recognized relationship, our partner may have certain legal rights to inherit assets and we may need consent in advance to leave those particular assets to a charitable organization or other person. Also as the federal government is not yet recognizing our state relationships, tax advantages for federally recognized married persons do not apply. Assets in particular that may fall under this rubric of needing consent to leave to someone other than a partner may include life insurance, retirement accounts and any other form of community property.

LGBT Giving: “Come out, Come Out, Wherever You Are”

A recent Horizons Foundation report, “Building a New Tradition of LGBT Philanthropy” (downloadable from www.horizonsfoundation.org) found that less than 5% of the Bay Area’s LGBT community gives to LGBT organizations. Admittedly, the LGBT movement is young, and of course, many of us who identify as much more than our sexual orientation alone. But just think of the challenges that we have faced - from establishing safe communities where we live as equals, to battling HIV and AIDS, from providing LGBT youth the opportunity to live openly and authentically, to meeting the unique needs of our elders.

So much work has been done with so few of us on the front lines. Imagine if twice as many of us, or three times as many of us, participated actively in the work being done now by so many organizations yet funded by so few! People around the world and for generations to come might truly live free from prejudice and discrimination.

So as Harvey Milk famously encouraged everyone to come out as a means for social change, tell your friends how you feel, what you do and why you support LGBT philanthropy. Most people willingly admit they give to organizations because they are asked by their peers and in times like now, each of us can be an ambassador by encouraging others. No matter what our giving capacity, we can make a huge impact by sharing our stories with others, inviting them to participate in shaping community and helping to educate people about the organizations which we know and love—TOGETHER WE DO MAKE A DIFFERENCE!

Deb Kinney is principal at:

DLKLawGroup PC

One Bush St, Ste 1150
San Francisco, CA 94104
T 415.693.0550
F 415.693.0500

1160 North Dutton Ave, Ste 120
Santa Rosa, CA 95401
T 707.237.7371

www.dlklawgroup.com