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## NF93-114 Charitable Giving in Estate and Retirement Planning

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# NebFact



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## Charitable Giving in Estate and Retirement Planning

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In 1989, Americans donated over \$114 billion dollars to charity. About \$6.5 billion, or almost 6 percent of the total donation, was given by persons through estates. The 1989 *NonProfit Times*/Opinion Research Corporation survey reported 72 percent of persons over age 65 gave to charities<sup>1</sup>. Charitable giving is an important issue for retirement and estate planning.

Donations to qualified charitable organizations entitle donors to claim tax deductions for the value of the gift given. Generally, organizations which are religious, charitable, educational, scientific or literary in purpose, or those dedicated to preventing cruelty to children or animals are qualified charitable organizations. Gifts to foreign organizations, social clubs, labor unions, chambers of commerce, individuals, political organizations or groups whose purpose is to lobby for changes in law are not qualified charitable organizations.

This NebFact addresses the issue of donations through estates and retirement planning. Specifically, guidelines on deciding where to contribute, and how to most effectively donate towards various objectives will be presented. References for additional information are also provided so individuals can obtain up-to-date information on various charities.

### Deciding Where to Give

Persons can either give to recognized charities or establish their own trust. Giving to recognized charities is easier, as much of the legal work is handled by the charity. Giving to or establishing a trust, however, may be a way to more precisely direct your donation. The following sections detail some things to consider when giving to a recognized local, national or international charity.

### Giving to Local Organizations

Donations earmarked for local charities deserve special attention for several reasons. First of all, a person who has decided to give locally may be unable to evaluate the charity using the methods used to

evaluate national and international charities. Often, local foundations and organizations do not have a fund-raising department. These groups may not be able to easily give information regarding their expense breakdown, and possibly do not provide potential donors with colorful publications detailing various forms of donation. Almost any community agency, however, will be able to put a prospective donor in contact with one of its directors or the organization's attorney. These individuals should be able to provide specific information regarding the organization, as well as answer questions regarding specific donations.

On the other hand, local charities tend to have more specific goals, so evaluating their work is simpler. If a potential donor and the charity are in the same community, initial assessments of the benefits of donating to that specific organization will be easier.

Much of the work of local charities may be done by volunteers. Volunteering gives the donor an opportunity to work directly with the charity, while seeing first-hand how gifts are being used. In addition, the volunteer work of the donor is also a gift which, though it does not provide a tax deduction, furthers the objective of the charitable organization.

An alternative to donating to specific, local causes is to create a charitable trust. To do this, a donor must hire an attorney to prepare the necessary legal paperwork, transferring the donated assets into a trust. The trust is then managed to accomplish a specific purpose, such as providing scholarships for youths from that community. This donation method is legally technical. Before establishing a trust, a donor should consider whether or not the same objective can be obtained through an existing charity and whether the donor is confident their gift will be used for its intended purposes by the trust officer in charge of the assets.

Donors who set up a trust while they are living are assured the trust will operate in the manner they intended. If the trust is not effective until after the death of the donor, it is wise to notify potential beneficiaries of its provisions. This will allow the community or organization to plan for the gift, and help assure the donor's wishes are carried out after death.

## **Giving to Established Charities**

Many people already have an idea of what charities they want to support. Some people may consider donating to charities in response to an appeal they received. Selecting reputable charities is critical, given the number of bogus charities which have been uncovered. The following criteria should be considered when selecting a qualified organization for donation. This checklist is intended to help people evaluate available alternatives, and to make sure their donations are going to organizations they want to support.

There are three main questions to ask when deciding which charities will receive gifts during your retirement or in your estate. They are:

- Does the charity work towards goals you favor?
- Does the charity use means you approve of?
- Does the charity compare favorably with others in the same field?

**Does the charity work towards goals you favor?** Consider your values and how you could best promote them. Consider whether you want to restrict your involvement to your locale, your state, the nation, the world or a particular part of the world. Consider the issues that move you and seek ways to change the course of these trends. Think about what you would like to see happen and give to charities

that are working towards these goals.

If through this process you decide on an area you would like to become involved in, there are several places you can go for information on existing charities. The National Charities Information Bureau and the Philanthropic Advisory Service of the Council of Better Business Bureaus both publish lists of charities. These lists are arranged alphabetically, by title rather than by topic, and can be obtained by calling or writing either organization. Neither list includes religious organizations, except those with primary projects in areas such as housing, education and social action. You may want to contact the state or national headquarters of individual denominations for any charitable opportunities.

The above information sources do not provide information on local charitable organizations. A list of community agencies which might qualify for charitable gifts can be found in the Yellow Pages under Social Services Agencies, Human Service Organizations, Health Agencies and Foundations. The local chapter of the United Way may provide short descriptions of organizations receiving money from its fund-raising campaigns. The United Way, however, has already selected certain organizations to fund and therefore will not have information on all qualified organizations in a community.

**Does the charity use means you approve of?** Finding a charity with objectives similar to yours may only be the beginning. Such a list might be quite long. The list of charities addressing your concerns can be reduced by considering the means these charities use to accomplish their objectives. Consider whether these goals are being met in ways you approve of and believe to be effective.

For example, you may want to donate to causes focusing on fighting poverty. Some organizations take an immediate view, concentrating on famine relief, while other charities take a more long-term perspective by feeding and/or educating children, in hopes of addressing a root cause of poverty. Another example would be donating to environmental groups. Some of these groups use education to advance the cause of the environment. Others actively obstruct development projects with protests. Lastly, consider whether you want the work to be done in the name of a particular country (i.e. American Red Cross or Volunteers of America), a particular church (i.e. Catholic Social Services or Mennonite Central Committee) or religion (i.e. Jewish Welfare Board or Christian Children's Fund).

**Does the charity compare favorably with others in the same field?** Perhaps the most important indicator of a charity's effectiveness is their record of accomplishments. Each charity's promotional material will display their successes, so effectiveness may become a judgement call. Maintaining a long-term relationship with a charity helps donors monitor what the organization seeks to accomplish and the means they use to accomplish their goals.

Financial comparisons of charities can be used to distinguish them. Frequently used measures include:

- which charity has the lowest fund-raising costs?
- what percentage of the charity's income goes to management and general expenses?
- what percentage of the charity's overall expenses are devoted to the objectives you want to advance?

Every charity, whether religiously affiliated or not, should be able to give prospective donors a copy of their audited financial statements. If an organization refuses or is otherwise unable to provide this information, look for another charity. Again, the National Charities Information Bureau and the Philanthropic Advisory Service of the Council of Better Business Bureaus can provide information on these issues, as well as the purpose statement of each charity they watch over.

Three other organizations track religious charities and are able to provide detailed information on individual religious philanthropies. The Evangelical Council for Financial Accountability accredits evangelical organizations that adhere to their standards. The National Catholic Development Conference lists Catholic organizations that subscribe to their standards. The Other Side provides information on religious organizations from a liberal, social perspective.

Every non-religious charity must file a Form 990 with the Internal Revenue Service. This form provides valuable information for evaluating an organization. Details on the charity's sources of revenue, what it pays top executives, how much it spends on programs, fund raising and management, what its principle programs are, whether income exceeds expenses and how much volunteer help they receive is included. A copy of a charity's Form 990 can be obtained from the charity or the IRS (for a fee).

## **Effective Giving Considerations**

Donating to a qualified charity can result in a double benefit as the donor's concern is addressed while they receive a tax deduction for their gift. There are several ways to accomplish these objectives.

Most charities are involved in several projects at one time. In most instances, a donor can specify that their gift go to a particular project they are interested in. To direct a gift, the donor must communicate their wishes directly to the charity's development department. If this communication does not take place, the charity will use the gift as they see fit. Directing a gift is easier if the charity is informed about the gift prior to its donation.

Depending on the donor's financial situation, contributing to charities before their death can be rewarding, as it allows the donor to see their gift at work. This kind of donation can also be kept secret - a difficult thing to do if the gift is given in a will. In addition, the donor is able to reduce the cost of contributing, as probate and administrative charges associated with giving through an estate are avoided. The donor knows their wishes will be carried out if the gift is given during their lifetime.

A charitable organizations' development or planned giving department may be able to provide donation options that save taxes, provide for retirement income or for an annuity for heirs. Devises, such as gift annuities and charitable remainder trusts, allow individuals to give gifts now, receive a tax deduction for the gift (with certain limitations) and provide for a retirement annuity until death. Transfers with retained life estate allow persons to give property, such as a house or farm, to a charity and the benefactor may continue to use the property until their death.

If a donation is to be made prior to death, the individual can avoid paying a capital gains tax if the gift is appreciated property. Stocks, bonds and real estate often make excellent gifts to charities. When properties have increased in value and have been held by the individual for at least one year and one day, donors can usually save money by contributing the property rather than an equivalent cash donation. The donor is allowed to deduct the full value of the property, and will not have to pay the capital gains tax which would be due on a sale of the property.

## **Endowments**

Charities often want gifts to be given to an endowment fund. An endowment fund does not spend the money it receives, but rather invests it and spends the return on the investment. For example, a \$100,000 gift put into a scholarship endowment fund may provide \$5,000 in yearly scholarships while the original \$100,000 is never depleted.

Charitable organizations establish endowment funds because they aid in the smooth operation of the charity, providing a somewhat reliable annual stream of income. On the other hand, giving to an endowment does not put as much money into the charitable projects as quickly as does giving to current projects. One concern with endowment donations is that charities change over time, both in their emphasis and the way they pursue their objectives. Money donated to an endowment may be used in the future to fund purposes which the original donor never intended to fund.

## **Foundations**

Foundations are organizations established to aid charitable organizations by seeking gifts and managing endowments. Foundations make contributing to the charitable organization very easy, by providing information on the objectives and needs of the charity and by assisting in the various legal matters associated with giving. The foundation's attorneys and representatives can help set up a will or a trust. Foundations are there to serve the interests of the charity and give advise from this perspective. It is often helpful to hire an attorney to represent your interests if the size of the gift is substantial.

**NOTE:** The information contained in this NebFact is for educational purposes only. Contact qualified estate and retirement planning consultants with specific questions.

## **References for Additional Information**

National Charities Information Bureau  
19 Union Square West  
New York, NY 10003-3395  
Phone (212) 929-6300

Philanthropic Advisory Service  
Council of Better Business Bureaus, Inc.  
4200 Wilson Boulevard  
Arlington, VA 22203  
Phone (703) 276-0100

Evangelical Council for Financial Accountability  
PO Box 17456  
Washington, DC 20041  
Phone (800) 323-9473

National Catholic Development Conference  
86 Front Street  
Hempstead, NY 11550  
Phone (516) 481-6000

The Other Side's  
300 West Apsley Street  
Philadelphia, PA 19144  
Phone (215) 849-2178

Nebraska Secretary of State  
2300 Capitol Building  
Lincoln, NE 68509

Phone (402) 471-2554

**Reference:**

- Mackey, Philip English. *The Giver's Guide: Making Your Charity Dollars Count*. 1990. Catbird Press, Highland Park, NJ.

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