

# PHILANTHROPIC SERVICES

## CHARITABLE GIVING STRATEGIES AND SOLUTIONS

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*The Right Solution Can Help You Meet Your Philanthropic Goals While Minimizing Taxes*

**Americans are known for their generosity. In 2005 in the United States, charitable donations exceeded \$260 billion, improving an untold number of lives. And individuals accounted for a majority of all giving – about 77% – with organizations contributing the rest.**

–Giving U.S.A.

Whether you are new to giving or looking to expand your philanthropic activities, Northern Trust can help you and your family plan your legacy. Our comprehensive philanthropic solutions enable you to take a focused, more strategic approach to charitable giving by integrating your philanthropic goals into a comprehensive wealth transfer plan – and allowing you to enjoy the personal and financial benefits of giving.

### YOUR PASSIONS DRIVE YOUR LEGACY

Reasons for giving to charity are varied and personal, reflecting your goals and values. You may feel a sense of obligation or wish to:

- instill family values,
- support a favored cause,
- establish a family legacy of giving or
- give back to the community.

Regardless of your reasons for giving, it makes sense to carefully consider how you intend to carry out your charitable giving – how much you want to give, when you want to give and how to involve family or friends in the giving process.

### CHOOSING THE RIGHT VEHICLE

As the chart on the following page illustrates, whether you choose to make gifts to charity during your lifetime or through your will or trust, you have a variety of philanthropic vehicles from which to choose.

From making direct donations to a nonprofit organization to establishing a private foundation, each alternative offers distinct advantages and challenges, as well as varying levels of complexity. It's important to consider your individual circumstances and motivations when choosing the solution that will best meet your philanthropic goals, with the most favorable tax outcome. Northern Trust offers a breadth of knowledge and experience to help you and your advisors put your plans into action to benefit you, your family and the causes that are important to you.

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**COMPARISON OF SELECT PHILANTHROPIC SOLUTIONS (Arrayed from least complex to most complex)**

	Direct Donations & Bequests	Donor Advised Fund	Charitable Remainder Trust	Private Foundation
<b>Description</b>	With direct donations, gifts can be provided to a charity during your lifetime or through a bequest in your will or similar provision in your trust at death.	A donor advised fund allows you and/or one or more designees to act as a "donor advisor" who recommends grants over time to tax-exempt organizations.	With a charitable remainder trust, you or someone you designate receives cash flow for the trust's term; one or more charities receives the remainder. (A charitable lead trust is more or less the reverse.)	A private foundation allows you to make gifts to a number of charities over time, and to involve family members in the decision-making process.
<b>Tax Implications</b>	<p><b>Lifetime gift:</b> Immediate income tax deduction</p> <p>Cash: up to 50% of AGI Securities: up to 30% of AGI</p> <p>No capital gains tax on properly structured gifts of appreciated securities</p> <p><b>Bequest:</b> Estate tax deduction for full market value of donation at death</p>	<p><b>Lifetime gift:</b> Immediate income tax deduction</p> <p>Cash: up to 50% of AGI Securities: up to 30% of AGI</p> <p>No capital gains tax on properly structured gifts of appreciated securities</p> <p><b>Bequest:</b> Estate tax deduction for full market value of donation at death</p>	<p><b>Lifetime gift:</b> Immediate income tax deduction equal to the present value of the remainder interest</p> <p>Cash: up to 50% of AGI Securities: up to 30% of AGI</p> <p>Deferred capital gains tax on properly structured gifts of appreciated securities</p> <p>Character of the income earned determines the type of tax to be paid by non-charitable beneficiary</p> <p><b>Bequest:</b> Estate tax deduction for full market value of present value of remainder interest</p>	<p><b>Lifetime gift:</b> Immediate income tax deduction</p> <p>Cash: up to 30% of AGI Securities: up to 20% of AGI*</p> <p>No capital gains tax on properly structured gifts of appreciated securities</p> <p><b>Bequest:</b> Estate tax deduction for full market value of donation at death</p>
<b>Advantages</b>	<p>Contributions deductible in current year</p> <p>Immediate benefit to charity</p> <p>No front-end costs or expenses</p> <p>Keep assets until you donate, investing them as you choose</p>	<p>Contributions deductible in current year</p> <p>Ability to recommend investments and grants</p> <p>Minimum cost to establish</p> <p>Anonymity, if desired</p> <p>Involvement of family members and friends</p> <p>Establish a family legacy of giving</p> <p>Because there is no excise tax, more funds are available for gifting</p>	<p>Benefit both family members and charity</p> <p>Provide increased cash flow</p> <p>Ability to change the charitable beneficiaries</p> <p>Diversify a large, single investment with deferred taxation</p> <p>Facilitate tax-efficient transfers of low cost basis assets</p>	<p>Contributions deductible in current year</p> <p>Ability to make grants over time</p> <p>Full control over charitable distributions</p> <p>Anonymity, if desired</p> <p>Involvement of family members and friends</p> <p>Establish a family legacy of giving</p>
<b>Considerations</b>	<p>Some charities cannot accept donated securities</p> <p>One-time gift vs. continuous grants</p>	<p>Sponsoring charity has final say on grant recommendations and investment of fund assets</p> <p>Program and investment fees</p>	<p>Benefit to charity is delayed</p> <p>Restrictions on the income and remainder interest</p> <p>Annual tax returns</p> <p>Set-up and ongoing expenses</p>	<p>Net investment income of private foundation is subject to 2% federal excise tax</p> <p>Annual tax returns</p> <p>Substantial set-up and ongoing expenses</p> <p>Complex self-dealing and other private foundation excise tax rules</p>

\*Deduction for closely held stock is based on tax cost.

## CHARITABLE GIVING IN ACTION

Working with you and your other advisors, Northern Trust will help you evaluate and implement an appropriate charitable giving strategy for you and your family.

CLIENT SITUATION	SOLUTION
<p><b>Deciding Between a Donor Advised Fund and a Private Foundation</b></p> <p>Steve is a 45-year-old who recently sold his closely-held company to invest in a start-up enterprise. From the proceeds that he received from the sale, Steve wants to make a cash contribution of \$150,000 to a local hospital for leukemia research. He wonders which charitable vehicle would best suit his goals – a donor advised fund or a private foundation.</p>	<p><b>Value: Giving with minimal administration.</b></p> <p>The private foundation option is attractive, but Steve learns that managing a private foundation will entail substantial administrative costs and time at this level of funding. Instead, he chooses to make a contribution to the Northern Trust Charitable Giving Program, a donor advised fund. This option will require less administrative work on his part and, at the same time, Steve will receive a larger current income tax deduction: up to 50% of his AGI for the cash gift he makes to the donor advised fund. By comparison, donors who make cash contributions to a private foundation receive a smaller (up to 30% of AGI) income tax deduction.</p>
<p><b>Two Goals: Increasing Cash Flow and Funding the Arts</b></p> <p>A retirement-age couple, Charlie and Helen, own a vacation home that they no longer use. They want to sell the home to provide themselves with a steady income during their retirement. Charlie and Helen also want to leave a substantial gift to their local art museum to support youth educational programs.</p>	<p><b>Value: Provide lifetime cash flow to the donor(s) and support a special charity.</b></p> <p>Their Relationship Manager suggests that Charlie and Helen establish a charitable remainder trust. Their attorney drafts the trust, Charlie and Helen transfer the vacation home to the charitable remainder trust, and the trustee sells the home to an unrelated third party. Capital gains taxes on the sale are deferred, and the proceeds are invested in a diversified investment portfolio. Beginning with the first year after the sale, and pursuant to the terms of the trust, the trustee pays out 5%* of the trust's current market value to Charlie and Helen annually. After the death of the survivor of Charlie and Helen, the remaining trust assets will go to the art museum.</p>
<p><b>Desire to Pass Along Values</b></p> <p>Lauren is a recent widow who has three daughters and five grandchildren. For many years, Lauren has been an active member of her community, volunteering to raise funds or awareness – whatever is needed. It is important for Lauren to instill the same values in her children.</p>	<p><b>Value: Establish a legacy of giving.</b></p> <p>Working with her attorney, Northern Trust can help Lauren establish a private (family) foundation. Her daughters can help create the foundation's mission statement and can serve as members of the board of directors. Her grandchildren can participate in the grant review process. By establishing a family foundation, Lauren's children and grandchildren will see firsthand the impact their philanthropy can have on their community.</p>

\*Percentages can vary depending on the terms of the charitable remainder trust and the donor's income needs.

The information and client scenarios presented are intended to illustrate possible strategies. They do not necessarily represent experiences of other clients and do not guarantee a specific result.

### EXPERIENCE YOU CAN TRUST

You can feel confident in the expertise of our dedicated Philanthropic Services team led by Marguerite H. Griffin. As National Director, Marguerite consults with clients, their families and their advisors on a variety of charitable giving strategies and grantmaking practices. Her experience – including estate and charitable gift planning, private foundation administration and nonprofit organization and management – has helped establish Marguerite as an industry-recognized expert.

For more than a century, generations of individuals, families and their foundations have turned to Northern Trust for guidance in establishing and maintaining their charitable giving legacies.

### FOR MORE INFORMATION

We invite you to contact your Relationship Manager to learn more about how Northern Trust's Philanthropic Services specialists can help you evaluate alternative philanthropic solutions and allow you to focus on what matters most. We also encourage you to consult with your legal or tax advisor to ensure your charitable intentions are integrated into your wealth transfer plan.

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