



CHAPTER 1

Engaging in Philanthropy

You have made it! You have acquired substantial financial resources and are beginning to seriously consider the role of philanthropy and charity in your life. Perhaps you are considering making your first charitable gift; or you may have been making gifts for years and now want to know more about philanthropy. You are at a point in your life when you feel that you want to make a difference in the lives of others, and philanthropy may be a way to do this. You may be asking yourself, “Is there more to life than what I’m doing? Does acquiring material goods really fulfill me? Do I want to leave a legacy—something beyond what I do today?”

You have now reached a point when you have the capacity and desire to help others through charitable giving. Becoming a philanthropist is a wonderful experience. You may not yet see yourself as a philanthropist, but don’t worry, philanthropists make both large and small gifts. Many donors started out by making small gifts and gradually increased the size of their gifts over time, as they acquired greater wealth and more disposable income. One thing is certain about philanthropy. To be a philanthropist, you do not need to be rich, you need only to care about helping a charity or helping someone or something that the charity serves.

PHILANTHROPY IN THE UNITED STATES

Philanthropy is uniquely American. Congress has provided the American public with incentives such as charitable income tax deductions, capital gains avoidance, and estate tax deductions to make charitable gifts. Charities provide services that federal, state, and local governments would have to offer if it were not for the nation’s charities. No other country in

2**Engaging in Philanthropy**

the world encourages private philanthropy more than the United States. Philanthropy has emerged as a part of everyday American culture. High-profile cases, such as Bill Gates's philanthropic activities, are well documented, as are stories about everyday people making spectacular gifts to deserving charities. Americans are intrigued by these stories as they wrestle with their own challenges to support charities and fulfill their philanthropic goals.

Most of the country's new donors are very "hands on" with their philanthropy. They explore and research thoroughly before they give. They want regular reporting on how their gift is used. And they want to see their money make a difference: that their gift ultimately helps those for whom it was intended.

Philanthropists make an enormous difference in this country. Most nonprofits rely on fundraising to help do their work: many organizations can fund only about 60% of their work and look to donors and other sources to make up the difference.

What is it about philanthropy that can make a donor part with assets that were painstakingly accumulated over a lifetime? Why does a donor make a gift that represents up to a third or half of his/her net worth to charity? The need to help others, to benefit charity, to do something noble and good are strong factors in helping donors make a gift. By providing the funding for a new wing on a hospital, buying books for a library, or creating a new children's display at a museum, donors make a difference in the lives of others. Donors, by supporting charities, provide opportunities so that others can benefit. Were it not for the support of philanthropists, big and small, the nation's libraries, museums, art galleries, hospitals, colleges, and universities would be without the resources that make them what they are today.

WHO ARE THE NATION'S PAST AND FUTURE DONORS AND WHERE DO YOU FIT IN?

Traditionally, philanthropists were males or surviving spouses or childless couples. Many were older and had accumulated enough wealth and were at a sufficiently comfortable place financially to want to benefit charity. They felt connected to a charity or cause and they wanted to give something back. They made their gifts outright, through a life income arrangement, or through their estates.

Today's new donor is different. He or she tends to be self-made and has different expectations. If the donor is married, both spouses tend to be more involved in family giving. For other donors who live with a partner, philanthropy may be linked to specific causes that are important

Who Are the Nation's Past and Future Donors?

3

to them. Time is scarce, technology use greater. The demand on the charitable institution is greater too. Donors today tend to want to stay more involved with their gifts, looking for a way to control the gift and help with its investment. Gone are the days of saying "Here is my gift, do with it as you will."

After founding Microsoft, Bill Gates gave billions toward international vaccination programs, placed computers in libraries, and supported children's health programs. Ted Turner's philanthropy is also well known. Having founded Cable News Network (CNN), he has pledged over \$1 billion to the United Nations Foundation as well as made gifts to support international children's health and environmental programs. But not all of our philanthropists are so well known for their business acumen; Oseola McCarty, a family laundress, saved and made a generous gift to the University of Southern Mississippi for scholarships. Ms. McCarty lived simply and saved well. Her gift made a big impact on students who needed money to attend college.

Where do you fit in?

Surviving Spouses

Surviving spouses are an important group who often make gifts to honor the family name or to memorialize a deceased spouse. Often a charity has played an important part in their lives and they wish to permanently link their name with the charity.

Childless Couples

Childless couples traditionally have turned to charity to be a beneficiary of their wealth. Some childless couples use charities as a substitute for a natural family. Often these donors are wealthy and have valuable assets and collections that can benefit a charity. They often make life income gifts and gifts through their estates.

World War II Donors

Donors who grew up in the shadow of World War II have been a great source of support for charities. Many received benefits through the GI Bill and graduated from colleges and universities. Many were entrepreneurs who, following the war, developed businesses to meet the needs of America's returning servicemen and women. These donors have generously supported education, healthcare, the arts, and a variety of other causes important to them.

4**Engaging in Philanthropy****Baby Boomers**

Baby boomers and others who were influenced by the causes of the 1960s now find themselves with financial resources to support charities related to many of these causes. Like all donors who make charitable gifts, baby boomers direct their gifts to charities that provide services to the causes they wish to impact.

High-Tech Philanthropists

High-tech philanthropists make up a new breed of donor. They tend to be much younger than most donors; many are not yet married and do not have children. They are in their 20s to mid-40s and feel very connected to their wealth, which they worked hard to earn. Many want to be actively involved with the charity they support. Others want to support a cause yet do not have the time to be involved closely with the charity.

Investors

Many donors secured their wealth through investments in the stock market. They invested in growth stocks, initial public offerings, or mutual funds. Unfortunately, success in investing means capital gains taxes and income taxes through interest income and dividends. In addition to philanthropic reasons, these donors look to charities to obtain tax benefits to offset gains.

Corporate Employees and Professionals

Corporate employees and professionals have acquired wealth through corporate stock options and by participating in 401k, 403(b)(7), and self-employed retirement plans. Employees who worked during the last 20 years have seen spectacular growth in their retirement plans and in their net worth. These donors are prepared for the future and can now focus on philanthropy.

DONOR MOTIVATIONS: WHY MAKE A GIFT?

Because philanthropy is so personal, each donor has his or her reasons for making a gift. Study the following common motivators among donors. What motivates you to make a charitable gift?

Donor Motivations: Why Make a Gift?

5

Philanthropy

Philanthropic donors are truly the noblest—and scarcest—of all donors. They make gifts because they wish to better the world and view philanthropy as a personal duty. These donors often make their gifts anonymously and shun the spotlight. Philanthropic donors usually seek out an organization to make a gift. Osela McCarthy's gift fits this category.

Gratitude

Grateful donors are those who want to repay a debt to a charity. Often they received a benefit from the charity and feel indebted to it. They may be college graduates who feel that everything they have achieved in life is due to the education they received, patients who feel that medical care saved their lives or greatly improved their quality of life, individuals who received social services in a difficult time, or those who want to support the religion they have believed in all their lives. Like philanthropic donors, most grateful donors seek out an organization and set the gift-giving process in motion themselves.

Honoring Loved Ones

Many donors make gifts to honor loved ones. Sometimes such gifts are made to honor a person who is living, but more are made as a memorial tribute to someone who has died. Donors of memorial gifts usually seek out the charity and have very specific ideas about how they want to honor their loved one. Often they are motivated to create a named endowed fund that allows them to pay lasting tribute. Several family members may contribute to the fund.

Charity as Family Substitute

Many donors make gifts to charities because they have no heirs to whom assets can be transferred, or because they do not wish to give family members their money. In effect, they are looking for alternate heirs and beneficiaries.

Tax Benefits

One reason for making charitable gifts is to realize financial or tax incentives. However, a donor must first have a philanthropic intent to make a gift. Tax benefits become increasingly attractive to the philanthropically minded donor. Charitable income tax deductions, avoidance of capital

6**Engaging in Philanthropy**

gains taxes, and a reduction in federal estate taxes are some of the strongest tax incentives.

Financial Benefits

Sophisticated donors, such as business professionals, have increasingly turned to charities as a way to maximize financial return while minimizing taxation. This relatively new breed of donors often uses an asset other than cash, such as real estate, securities, or closely held stock, to fund gifts. Usually they are looking for a stream of income or want to increase the yield they currently receive from low-paying investments.

Social Standing and Prestige

Some donors give to certain charities because they wish to become the charity's "insiders." They see their contributions as a form of membership dues. Others may give to well-established, long-standing traditional organizations so that they can be known as benefactors of those organizations. They perceive that their social standing will rise with each gift.

Insurance Policy

Some donors give to an organization because they want an "insurance policy" for the future. This practice is most prevalent at hospitals but is also seen at other charities. These donors want to make a gift so that they become known at the hospital. If anything were to happen to them, they feel they will be assured of getting first-class treatment because of their status as "big donors." A gift also may be made to ensure that a son or daughter is accepted into a school, college, or university.

Recognition

For some donors, philanthropic intent is overshadowed by a desire for recognition. These donors seek to gain the most from their gifts and tend to favor high-profile opportunities, such as having their names engraved on a building.

GETTING STARTED

Now that you have explored the reasons why donors make gifts, it is time to get started. The following questions will help you examine your motivations for making a gift, think about appropriate charities, and consider the type of gifts and assets that should be used to make the gift and the steps that follow in making your gift.

Getting Started

7

- ***Why do I want to make a gift?***
Whom am I trying to help? Am I trying to help a charity do its work? Do I want to make a gift in honor or memory of someone close to me? Is tax savings a factor in my philanthropy?
- ***What is the purpose of my gift?***
Once I make a gift to the charity, how do I want my gift to be used? Should I establish a scholarship or make a gift in support of a program for the public, such as a lecture series? Should it be used to support a display or exhibit? Should it be used to purchase equipment or computers, be used to establish a chair or professorship, or be used to support a capital project? Should it be used to provide research in medicine or underwrite a children's play?
- ***What are my interests?***
Would I make a gift to educational or healthcare organizations? Is social services or religion more important to me? Should I support the arts, or are local civic organizations most important to me? Do I want to support one charity at a larger level or several charities at smaller amounts?
- ***Which asset will I use to make my gift?***
Should I use cash, stock, real estate, mutual funds, tangible personal property, or other assets to make my gift? Which provides the greatest benefits to the charity and me?
- ***What are my tax motives?***
Do I need a charitable income tax deduction? Should I make a charitable gift with appreciated property to avoid capital gains taxes? Do I need to reduce the size of my estate?
- ***What type of charitable gift should I make?***
Am I better off making an outright gift, a life income gift, or a gift through a charitable remainder trust or lead trust? Should I make the gift through my estate, or should I use a combination of these options?
- ***What charity should I benefit?***
Which charities have made a difference in my life? My family's life? Which charity focuses on issues that I think reflect my core values and beliefs? Which provide services or benefit society in a way I believe is important?
- ***Whose input do I need?***
Does my family/partner understand my goals? Have I discussed this gift with my attorney, certified public accountant, and/or financial planner? Have I reconfirmed the benefits with the charity's planned giving officer?

8

Engaging in Philanthropy

- ***When do I want to make the gift?***

December 31 is the last day to make a charitable gift and receive a charitable income tax deduction for the tax year. Have I begun the process early enough to complete the gift by that date? Is timing linked to the availability of soon-to-be-accruing assets? Am I prepared so that the gift can be made on time?

- ***Have I conducted due diligence on the charity?***

Have I conducted a site visit, read mission statements and charitable gift planning literature? Have I met with a development officer or planned giving officer to study the details of my gift? Do I have any doubts about the legitimacy of the charity?

THE DONOR'S ACTION PLAN

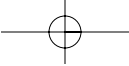
A donor's action plan is a checklist about issues related to charitable giving. It can help you decide what is important to you, which charities to benefit, which assets you have to make your gift, and for what purpose. The form can be copied and distributed to your family members to encourage them to share their thoughts about charitable giving.

1. Why do I want to make a gift?

- Help others
- Help charity do its work
- Become involved with a charity
- Make a gift back as a thank you
- Create opportunities for others
- Make a gift in memory or in honor of _____
- Charitable income tax deduction
- Capital gains avoidance
- Estate tax savings

2. What is the purpose of the gift? How do I want my gift to be used?

- | | |
|-------------------------------------------------|-------------------------------------------------------|
| <input type="checkbox"/> Current use | <input type="checkbox"/> Endowed fund |
| <input type="checkbox"/> Restricted gift | <input type="checkbox"/> Unrestricted gift |
| <input type="checkbox"/> Scholarship/fellowship | <input type="checkbox"/> Capital project |
| <input type="checkbox"/> Faculty support | <input type="checkbox"/> Visiting scholar |
| <input type="checkbox"/> Lecture series | <input type="checkbox"/> Guest speaker/speaker series |



The Donor's Action Plan

9

- | | |
|-----------------------------------------------|-------------------------------------------------------|
| <input type="checkbox"/> Research | <input type="checkbox"/> Honors' programs |
| <input type="checkbox"/> Scholar in residence | <input type="checkbox"/> Equipment |
| <input type="checkbox"/> Display/exhibition | <input type="checkbox"/> Computers/electronics |
| <input type="checkbox"/> Maintenance | <input type="checkbox"/> Program/departmental support |
| <input type="checkbox"/> Chair/professorship | |

3. What are my interests? What is important to me? What are my priorities?

- | | |
|-------------------------------------------|-------------------------------------------------------------|
| <input type="checkbox"/> Education | <input type="checkbox"/> Politics |
| <input type="checkbox"/> Recreation | <input type="checkbox"/> Arts |
| <input type="checkbox"/> Conservation | <input type="checkbox"/> Local issues |
| <input type="checkbox"/> Health | <input type="checkbox"/> Environment |
| <input type="checkbox"/> Children/infants | <input type="checkbox"/> Civic programs |
| <input type="checkbox"/> Social issues | <input type="checkbox"/> Music |
| <input type="checkbox"/> Religion | <input type="checkbox"/> Social services (poverty/homeless) |
| <input type="checkbox"/> Libraries | |

4. What asset will I use to make the gift?

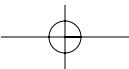
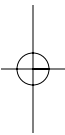
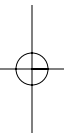
Estimated gift range \$ _____ to \$ _____

- | | |
|-----------------------------------------------------|---------------------------------------|
| <input type="checkbox"/> Cash | <input type="checkbox"/> Stock |
| <input type="checkbox"/> Securities | <input type="checkbox"/> Mutual funds |
| <input type="checkbox"/> Real estate | <input type="checkbox"/> Combination |
| <input type="checkbox"/> Tangible personal property | <input type="checkbox"/> Other assets |
| <input type="checkbox"/> Intellectual property | |

Cost basis \$ _____ Estimated value \$ _____

5. What are my tax motives?

- What is my adjusted gross income (AGI)?
 - Deduct gifts of cash for up to 50 percent of AGI \$ _____
 - Deduct gifts of property for up to 30 percent of AGI \$ _____
- Increase income
- Charitable income tax deduction
- Capital gains avoidance
- Estate tax charitable deduction
- Gift tax charitable deduction



10

Engaging in Philanthropy

6. What type of charitable gifts do I want to make?

- Outright gift
- Pledge
- Life income gift/planned gift
 - Charitable gift annuity
 - Deferred gift annuity
 - Pooled income fund
- Charitable remainder trust
 - Charitable remainder annuity trust
 - Charitable remainder unitrust
 - Charitable remainder unitrust with makeup provision
 - Charitable remainder unitrust—net income with makeup provision
- Lead trust
- Estate/bequest
- Structured gift
- Pledge
- Gift in kind

7. To which charity or charities?

After reviewing the following checklist, list charities' legal name, address, telephone number, and contact person:

- Educational Institution
 - College/university
 - Trade/vocational
 - Community college
 - Local scholarship fund
 - Other
- Professional/graduate school
- Day school
- Prep school
- Adult education

The Donor's Action Plan**11**

- Medical
 - Hospital
 - Research
 - Illness
 - Medical disability
 - Hospice
 - Other
- Cultural
 - Public television/radio
 - Symphony
 - Opera
 - Theatre
 - Library
 - Museum
 - Arts organization
 - Other
- Social Services
 - United Way
 - American Red Cross
 - YMCA/YWCA
 - Girl Scouts/Boy Scouts
 - Salvation Army
 - Other
- Environmental Organizations
 - Greenpeace
 - Nature Conservancy
 - National parks
 - Sierra Club
 - State parks
 - Municipal local parks
 - Audubon Society
 - National Trust
 - Trustees of Reservations
 - Other
- Religious/Faith-based Organizations
 - Catholic charities
 - Church
 - Other
 - Synagogue
 - Combined Jewish Philanthropies
- Ethnic/Racial
 - Black
 - Latino
 - American Negro College Fund
 - NAACP
 - Other
- Civic/Community/Charities
 - Chamber of Commerce
 - Politics (some tax restrictions apply)

12

Engaging in Philanthropy

- | | |
|------------------------------------------------------|---------------------------------------|
| <input type="checkbox"/> Arts organization | <input type="checkbox"/> Party |
| <input type="checkbox"/> City, town, or municipality | <input type="checkbox"/> Candidate(s) |
| <input type="checkbox"/> Homeless shelters | <input type="checkbox"/> Cause |
| <input type="checkbox"/> Meal programs | <input type="checkbox"/> Other |

8. Whom do I need to help make my decision?

- Family
- Spouse Children Parents Siblings
- Attorney
- CPA
- Bank/trust officer
- Investment advisor
- Financial planner
- Charity's planned giving officer/development officer/staff member
- Friend/colleague
- Mentor
- Other

9. What is my timing for the gift?*

- January
- April
- July
- October
- December 31, last day for charitable income tax deduction for that year
- Special date (birthday, wedding, anniversary, etc.)
- Other

10. Have I conducted due diligence on the charity?

- Requested and reviewed charity's mission statement
- Annual report
- Charitable gift literature

*Plan at least three months in advance for routine gifts and one year in advance for major gifts. Remember that year-end is an especially busy time for charitable giving, so plan accordingly.



The Donor's Action Plan

13

- On-site visit
- Meeting with planned giving officer/major gifts staff member
- Meeting with department head
- Meeting with charity's volunteer or administrative leadership
- Confirm charity's legitimacy at state/federal level
- Other

Once you have completed the donor's action plan, you are ready to move forward.

