The Wealth Counselor

A monthly newsletter for wealth planning professionals

Working with Charities for Fun and Profit

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Planning for Peace of Mind.

Developing alliances between non-charitable advisors (attorneys, CPAs and financial advisors) and advisors to charities (e.g., development officers for non-profit organizations) can provide better service to the team's clients, make fundraising more effective for the charitable advisors, and thus be beneficial for all concerned.

In this issue of *The Wealth Counselor*, instead of focusing on the technical side of charitable planning (tax and estate planning), we will take a look at the marketing side. We will explore the various forms of fundraising, what fundraisers do for charities, how they are compensated, how they can become part of the estate planning team, and how working together will benefit all involved, professionals and clients alike..

Fundraising Overview

Fundraising, or the process of soliciting and gathering contributions, such as money or other assets and resources by requesting donations from individuals, businesses, charitable foundations or governmental agencies, is multi-faceted. Its major divisions are annual giving, capital campaigns, major gifts, and deferred (or "planned") giving.

Annual Giving

Annual giving focuses on donor acquisition, repeating the gift and upgrading the gift. Most first gifts are small, but annual giving creates the habit of regular giving and, typically, increasing gift size over time. Direct mail solicitations, telemarketing, e-solicitations and special events are most often the methods used to increase annual giving. The ultimate goal of annual giving is lead generation for the other categories of fundraising.

Capital Campaigns

Capital campaigns are the most common way charities raise the funds needed for special large projects, such as a new building or a permanent endowment. A capital campaign is an intensive, time-limited effort seeking a larger than usual sum of money from the charity's perspective. Most charities consider hiring an outside consulting firm for a capital campaign rather than hiring or using internal staff. Frequently the outside consultant will guide the existing staff.

Major Gifts

Unlike annual gifts, which are typically made with cash, major gifts are often made in the form of publicly traded stock, bonds or other negotiable financial assets and, in some cases, real estate and valuable personal property, like art. Each charity establishes its own threshold for what is considered a "major" gift. For a religious denomination, it might be $25,000 or more, whereas a small local charity might set threshold at $1,000. Typically, making a "major" gift entitles the donor to special benefits, such as membership in a giving society (i.e., "Circle of Friends"), recognition in the charity's publications, or ticket priority for charity events.

Deferred ("Planned Giving") Gifts

Deferred gifts are gifts that a donor establishes now for the charity to receive at a future date. Most attorneys, CPAs and financial advisors are familiar with these. In some cases, the donor will receive income and tax benefits during his or her lifetime. Most are complicated and require planning; hence, the term "planned giving." Typical deferred gifts include Will bequests, post-death revocable living trust distributions, charitable remainder trusts, gift annuities, charity-owned life insurance, and pooled income funds. Although not completely "deferred" (the charity receives a benefit starting in the first year), most planners include charitable lead trusts in the category of deferred gifts.

Grants

Charities today also sometimes raise money by obtaining grants from individual or corporate private foundations or government agencies. Applying for such grants may be the assigned responsibility of a staff member or outside consultant.

What Charities Do with the Money They Raise

Charities are just like everybody else. They do two things with the money they get - spend it or save it for future use. Some contributions will be unrestricted and thus available to be used immediately for day-to-day expenses and charitable functions. Many charities also have an endowment fund in which gifts are set aside and held in a special fund to earn income that is used by the charity for general or special charitable purposes. Major gifts and deferred gifts other than for an identified purpose, e.g., a new building, typically go into the charity's endowment fund. The size of a charity's endowment fund is often used as a measure of its fundraising and overall success. Endowment funds are often divided into sub-funds to accommodate major contributors who wish to have their gift earmarked for a special purpose, such as scholarships.

How Charities Organize Their Fundraising Efforts

Many charities have at least one employee whose primary responsibility is fundraising. In smaller charities, a development officer may handle all of the facets of fundraising. Larger charities may have multiple fundraising staff members who are assigned to different fund raising functions within the charity's office. For example, one may be assigned specifically to developing deferred gifts.

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Networking Tip #1: Get to know the nonprofits in your area and learn about the resources and services they offer to the community. If your client has charitable desires, it would be very helpful if you already know which organizations would fit well with your client's intentions and would benefit from your client's gift.

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Conclusion

Developing alliances between attorneys, CPAs, financial advisors and development officers for non-profit organizations is an excellent way to expand your networking opportunities, become more aware of the services and resources available in your community, and generate new business. But most importantly, it will feel good to help your clients and charities in a way that is beneficial to both.

To comply with the U.S. Treasury regulations, we must inform you that (i) any U.S. federal tax advice contained in this newsletter was not intended or written to be used, and cannot be used, by any person for the purpose of avoiding U.S. federal tax penalties that may be imposed on such person and (ii) each taxpayer should seek advice from their tax advisor based on the taxpayer's particular circumstances.