

What Is Good Philanthropy?

Philanthropy in the Context of Overall Wealth Management

By Kara D'Angelo for
Inverness Counsel

Giving back is part of who you are—as a person and as a member of a family, group, or community. And as your life situation has progressed, so too has your giving. It has evolved. You are more involved now in where your time, expertise, and monetary donations go. Well, trends across all areas of philanthropy have also evolved. Although large foundations continue to drive charitable causes, the advent of online crowdsourcing has brought to light many grassroots efforts. Even smaller investor/donors are looking at how they can leverage their overall influence through impact investing and donor-advised funds. In the past century, charitable donations have fulfilled pledges to support educational and cultural institutions, satisfied obligations to houses of worship, and provided specific tax relief. Today, the world of philanthropy is all of those things and so much more.

Inverness Counsel continues to study the current state of philanthropy, exploring methods, root causes, and trends, in order to help you make the greatest impact in the areas you care about most. We look at philanthropy both in the context of overall wealth management and as a way of passing family values to the next generation. What effective philanthropy looks like and how to measure it—these issues are important to our clients, so we are at the forefront, providing you with the information you need.

Asset Allocation

As any investment advisor would counsel, it is usually best to diversify investments. Your assets are invested based on your financial goals and their horizons, your specific needs, your risk tolerance, and market conditions—to name just a few variables. But does it make sense to spread your philanthropy around as well? What is the best way to allocate your monetary donations, your expertise, and your time? There are so many options to explore depending on your interests and concerns. Let's say you'd like to improve your local community. Yes, it may be a small geographic region, but it has so many areas to impact. You could focus on enhancing one field or spread your influence across many—education, social services, the arts, the library system, landmark preservation, parks and other green spaces, infrastructure—touching on all of the concerns within the community. Or perhaps you'd like to help eradicate an illness. You could fund genetic research, drug testing, awareness campaigns, assistance for those suffering from the disease—or any one of the many distinct areas that touch the lives of those with the illness and their families. In other words, you may want to spread your philanthropy to many organizations, or you may wish to concentrate on only a few. Both methods can be effective in achieving your goals.

Passion

The essential difference between measuring the success of your investments and measuring the impact of your philanthropy lies in a very subjective variable: your passion. What problem do you want to solve? What ill would you like to see alleviated? What cause do you want to support? Would you like to address this problem or cause during a specific amount of time or pass the vehicle along to your family to continue the legacy? And perhaps most importantly, how do the answers to these questions reflect your core

values? How can your philanthropy help you pass your values along to your children and grandchildren? How can your philanthropy shape your legacy? Periodic conversations around these questions with family members and/or trusted advisors can help bring clarity to your philanthropy as it changes—imperceptibly at times and radically at others.

Tax Considerations*

Although you are not necessarily making a donation for the tax deduction, it makes sense to take taxes into consideration. To achieve an immediate tax benefit when making a donation, there are several options. The simplest way is to click the “Donate” button on a not-for-profit's website and use a credit card. However, this method may not provide the greatest impact on the organizations you truly wish to support. Donor-advised funds (DAFs) provide opportunities to donate to multiple organizations over time while taking advantage of the tax benefits in the year the DAF is set up. A foundation—a more complex alternative—is organized as either a trust or a corporation. Its governance is dictated by specific bylaws drawn up by the donor (and by the laws of the state in which it is established), and it is run by a board of trustees or directors. The donor takes the tax benefit in the year the foundation is established and in the years during which additional assets are added. By law, a foundation must give away approximately five percent of its assets to qualifying not-for-profits each year, but earnings generally grow free of income taxes. In determining your estate plan, philanthropic bequests and/or charitable remainder trusts may also play a role. These indicated donations may also pass through your estate tax-free.

Evaluating Your Impact

It is relatively easy to measure the performance of your investments, whether against benchmarks or in

terms of specific deliverables. However, your philanthropic impact may not be as easy to measure. In order to determine the success of your efforts, it is best to decide at the outset of your commitment just what you would like to accomplish. From there, understanding the target organization's goals and how they fit into your own will lay a foundation for proper expectations. An open dialogue lets you know what the organization is doing and what it needs to succeed, from capital campaign or specific project support to ongoing program funding. You can fit the organization's needs into your goals. Monitoring the progress of the not-for-profit through periodic site visits, reports, and newsletters will ensure that your intent is realized.

The Next Generation

Your philanthropy is a terrific way to introduce your children (or grandchildren) to the topic of wealth management—what it means to have money, invest wisely, spend judiciously, and give back to society. In addition, as you go about each of these activities, you reflect your core values through your actions, not just your words.

Inverness Counsel has the expertise to help you identify the proper philanthropic channels to achieve your specific goals and create your family's legacy.

Kara D'Angelo works as a Philanthropic Consultant to Inverness Counsel and serves as the Executive Director of The Patrino Foundation, a family foundation in New York. She has an undergraduate degree from Duke University and an MBA from Columbia University.

Please Note: Your Inverness professional remains available to discuss the above. Inverness does not serve as an attorney or accountant. Inverness does not prepare estate planning documents or tax returns. No portion of Inverness' services should be construed as legal or accounting advice. A copy of our current written disclosure Brochure discussing our advisory services and fees remains available at www.invernesscounsel.com. The scope of the services to be provided depends upon the needs of the client and the terms of the engagement.