Multi-generational Philanthropy: Giving Options

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There are many ways to make multi-generational gifts to philanthropic organizations and the decision to create a family foundation, use a donor-advised fund (DAF), or establish a charitable trust depends on a variety of factors. In this article, Senior Wealth Strategist Glen Goland, JD, CFP®, outlines some options and their differences.

When setting up a long-term philanthropic strategy,investors ought to begin by considering their ultimate philanthropic goals, the level of control they desire, tax impacts, the potential for the gift to generate income for the donor, and the family's desire to serve in administrative capacities.

Here, we look at several different options for multi-generational giving, and the benefits of each.

Family Foundation:

Family foundations are private foundations funded and managed by family members. With a family foundation, the founding family typically has direct involvement in decision-making, grant distribution, and overall foundation management.

A family foundation allows for the creation of a lasting family legacy, as the foundation can be passed down through generations. However, family foundations require ongoing administrative tasks and compliance with regulations — and may necessitate hiring staff — so they can be complex.

Donor-Advised Fund (DAF):

Donor-Advised Funds (DAFs) are a vehicle in which a donor can invest and grow charitable funds tax-free, and then gift funds to one or multiple charities over time. Contributions to a DAF are immediately eligible for tax deduction, but are irrevocable and cannot be returned to the donor. The donor recommends grants to qualified non-profits, which are then made by and in the name of the public charity that sponsors the fund.

DAFs are simpler and more cost-effective to set up and manage than family foundations. Gifting can be more private, as donations are made in the name of the fund.

Charitable Trust:

A charitable trust holds assets for the purpose of distributing those assets to charities. While providing potential tax benefits such as deductions and estate tax savings, a charitable trust can also provide an income stream to the donor or their heirs while the trust is in effect.

It's important to recognize that charitable trusts are irrevocable, leaving full control of the assets in the hands of the trustee.