CONSUELO MACK | WEALTHTRACK

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2017 is the 100th anniversary of the charitable deduction, but since the founding of the republic Americans have been known for their generosity, a trait that continues to this day. Charitable giving reached a record $390 billion in 2016. What's behind the surge? In the premiere episode of its 14th season, WEALTHTRACK focuses on strategies to maximizing charitable giving and what's driving the record breaking amounts.

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President
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CONSUELO MACK: This week on WEALTHTRACK, how to maximize the effectiveness of your charitable giving with Pamela Norley, the President of Fidelity Charitable , the oldest donor-advised fund in the country and Elda Di Ray, personal tax and financial planning specialist at EY. Thery're next on Consuelo Mack WEALTHTRACK.

Hello and welcome to this edition of WEALTHTRACK, I'm Consuelo Mack. 2017 is the 100th anniversary of the charitable donation tax-deduction. Americans are known for their generosity and charitable works. They are characteristics noted by French political philosopher Alexis de Tocqueville during his travels in America between 1831 and 1832. He described them in his instant best seller, *Democracy in America,* his analysis of the nature of the new republic and its citizens: *"Americans group together to hold fetes, found seminaries, build inns, construct churches, distribute books, dispatch missionaries to the antipodes. They establish hospitals, prisons, schools by the same method. Finally, if they wish to highlight a truth or develop an opinion by the encouragement of a great example, they form an association".*

Americans were more generous than ever last year, donating $390 billion to their favorite causes and associations! As usual individuals contributed the bulk of it, nearly $300 billion or three quarters of the total. And they increased their donations by nearly 4%, the largest single contributor to the overall growth in giving. As usual, religious organizations were the major beneficiaries getting 32% of the total charity pot. Education was half that at 15%.
And for only the 6th time in 40 years all nine major philanthropy subsectors realized giving increases. And for the second year in a row charities involved in environmental and animal causes experienced the fastest growth in donations, up 7.2% to more than $11 billion.

Where to give can be a daunting decision. There are 1.5 million nonprofit organizations in the U.S., a million of those are public charities, nearly 400,000 are other types of tax-exempt organizations, associations such as chambers of commerce, fraternal organizations and civic leagues.

How do you decide where to give? How do you know the charities you support are effective and trustworthy? How do you maximize your charitable deductions? That is where this week's guests come in.

Elda Di Re is a private client services leader in EY's National Tax Department, with a focus on servicing the personal tax and financial planning needs of ultra high net worth individuals. But she promises she can also bring it down to a lower income level. Among her many specialties is charitable planning.

Pamela Norley is the President of Fidelity Charitable the oldest and largest donor-advised fund in the country and second only to the Bill & Melinda Gates Foundation in grantmaking. Established in 1991 by investment giant Fidelity, Fidelity Charitable is a completely independent public charity whose mission is to make charitable giving quote: " Simple, effective and accessible".

Since it's launch it has helped its more than 130,000 donor-advised accounts - it calls them giving accounts - support more than 235,000 different charities with more than $22 billion in grants.

I started the conversation by asking them what is driving the increase in giving that we are seeing pretty much across all categories?

PAMELA NORLEY: So there are a lot of different things that are driving that. I think one is strong markets. No question about it that people are feeling confident about the markets right now and so, as a result, they're seeing some appreciation in their portfolios, and so they're using that to then do their philanthropy. Two is I think that there's just enormous amount of information that's made available about the needs across the world. Every day there's some cause, some flood, some earthquake, some Syrian crisis, and people feel very passionate and very compassionate about the things that they care about, and they want to give and support those causes. So I think that we've also had an election that in some instances may have caused people to be concerned about the level of governmental support that will be provided to philanthropic organizations going forward. So there's a myriad of things going on. Then the fourth thing I would say is the millennials, the millennials coming of age. They are very, very community-focused and world-focused.

CONSUELO MACK: Although they're young, they're giving.

PAMELA NORLEY: They're giving. They are even in small amounts, but they're giving, and so it's driving that $390 billion number that you know about.

CONSUELO MACK: So Elda, from your perspective do you, number one, agree with what Pam is saying?

ELDA DI RE: Absolutely.

CONSUELO MACK: Also, what's driving this charitable impulse to record highs? Because Americans have always been very charitable.

ELDA DI RE: I agree with the points that Pam laid out, and I'd add to them that there's an enormous amount of wealth being created at the top, and there's an acknowledgement that perhaps leaving all your money to your children is not a good thing. So your choices are your children, charity or the government, and people feel like perhaps they'd prefer to have a say in how that money is spent, and they can do that through charity as opposed to paying taxes.

CONSUELO MACK: There's something else going on as well in that there are changes in giving patterns. So let me ask you two about that, the fact that there was a slowdown in contributions to education for instance, and there was a big pickup in contributions to the environment and animal causes. So what trends are you seeing, Pam?

PAMELA NORLEY: So Fidelity Charitable has seen people staying the course with some of the big charities, the Red Cross, United Way, Doctors without Borders but also seeing some organizations such as the refugee crisis organizations supporting Syrian refugee crisis. We saw them going to the Southern Poverty Law Center, also the ACLU, so organizations that are very focused on dealing with I think inequality in resources and making sure that those who are impoverished in communities and around the world are getting the support that they need as well.

CONSUELO MACK: Among the clients that you advise, and in my introduction to you I mentioned that you do advise high net worth clients even though you are willing to talk to us at a lower level as well. What kind of causes are you seeing greater interest in?

ELDA DI RE: I am seeing my clients involved in charities where they feel they can truly make a difference. So that might not mean a big check to a school that's got a large endowment, but they identify the charities that they become involved with and feel that their check can do something that's tangible. So compare it to a school in Africa versus giving money to an endowed college in the United States, they feel where they size of their check can create something that is a tangible difference in the lives of others. They feel really good about that giving, and they want to give more.

CONSUELO MACK: Elda, speaking of the size of the check, we have a new president. There was a big presidential election with a new agenda, and I know when you and I had talked earlier, you mentioned that at EY you were looking very closely at the tax reform proposals that were coming in from the Trump administration, from the GOP, and that made a difference last year in what you were advising your clients as far as their tax policies and practices. So tell me what your view is now, number one, and what you're advising clients to do.

ELDA DI RE: Well, the post election period, there was this frenzy about what was going to happen to the deduction for charitable giving. The Trump proposal had been to limit the total amount of itemized deductions, and for people that were high net worth, that meant potentially not getting a benefit for their large contributions. So many of our clients funded their foundations, their charities, their donor-advised funds at the end of the calendar year 2016.

CONSUELO MACK: So they accelerated their giving.

ELDA DI RE: They accelerated their gifts in fear that that deduction would be lost in the future. Now what we're seeing is a thought that even if itemized deductions are permitted for charitable giving, perhaps the benefit in terms of tax rate might decrease. So it's still a no-brainer to give to charity now and get the benefit of the deduction at a higher marginal rate.

CONSUELO MACK: So income tax rates might come down, in which case when you've got to pay the higher tax rates now, so take more tax deductions.

ELDA DI RE: You know the benefit you're going to get today. We don't know what tax reform is going to bring in terms of limits or a decreased benefit in the case of lower rates.

CONSUELO MACK: Which brings me to donor-advised funds. Pam, as I said in my introduction to you that you are the president of Fidelity Charitable. It is the largest and oldest donor-advised fund in the country. Donor-advised funds mean that you can give your charitable donations now, but you don't have to give them. You can take the tax deduction out, but you don't have to give them money right away. So tell me how donor-advised funds work.

PAMELA NORLEY: So exactly how you just described it. It's a giving account that you can use for philanthropy. It basically allows you to make a contribution into an individual account or a family account. Take a tax deduction for that. Invest that money. It grows tax-free and then it comes out tax-free with a recommendation to a charity. So we spent the last 25 years trying to make giving accessible, simple and effective. Accessible in that we have 150,000 Americans who have a donor-advised fund with Fidelity Charitable who are using it to do their granting. They're investing in various portfolios, watching that money grow tax-free, and then they have more money to give out to charity when they come to the time that they want to consider which organization they want to support. So last year was a phenomenal year. Our donors gave away $3.5 billion.

CONSUELO MACK: So I can give my money to a donor-advised fund for instance, and I lose control of that money. However, I still have control over which causes I give to, and that's something that a donor-advised fund helps a donor with. You call them giving accounts.

PAMELA NORLEY: Yes. A giving account is sponsored by a nonprofit or a trust. We have an independent board of trustees that oversee this, and basically how it works is that you put your money into your account. It can grow tax-free, and then you make recommendations for the charities that you want to support. There are 1.5 million charities out there, and it's really important that these be legitimate charities. So we do the due diligence on behalf of the donors to ensure that these are 501(c)(3) legitimate, that they're in business, that they're keeping up with their filings.

CONSUELO MACK: Elda, when do you recommend to your clients that they use a donor-advised fund versus a direct give for instance?

ELDA DI RE: Well, a direct give means you have to align having the asset or cash at the same time as the need for the charity, and you've identified the charity. I recommend donor-advised funds or private foundations when it's advisable to separate the time of the gift to the time that the charity should ultimately get the gift, and that could be because you have a unique event in

your life. You're selling a company. You own a stock that's highly appreciated, and it's a good time from a tax standpoint to give that asset and get a deduction for its value.
You may not be ready for that charity. You may not have identified the charity at this point in time, but you know that you have assets which you ultimately want to have go to charity. People who are busy in their working lives haven't spent the time perhaps working with charities or knowing who exactly they want to fund, but they do know ultimately that they do want to fund a charity. So from a tax perspective, give it when it's the right time for that asset value or based on your marginal rate, based upon what your tax policy is at the time and leave it to when you have more time to investigate where that money should go, picking the vehicle, a DAF versus a private foundation. Foundations are hard to set up. They're costly. If you don't do the right thing in the way they're managed, there are numerous penalties.
So unless we're talking about millions of dollars, I typically would recommend a donor-advised fund, and I think it's great that the average person who has I think it's maybe a minimum $5,000 to gift can have essentially the same tax advantages that someone who could afford a private foundation in order to get a deduction now and identify the charity later. So it brings that tax technique as well as the ability to fund future charities down to the more mass affluent.

CONSUELO MACK: What are the disadvantages to donor-advised funds? Are there any down sides, negatives? When would you not recommend it to a client?

ELDA DI RE: Well, they have to be ready to part with the money to give the money to a donor-advised. It's not theirs anymore. They can't take it back. They can suggest where the monies go in terms of the ultimate charity. They can suggest where it should be invested, but they can't use the money, for example, to fund ... perhaps they find a venture that they think will have some promising ... let's use an example, a vaccine. So they can't do program investing, things which perhaps if they had their own private foundation they could do. So it's more restrictive. However, it is a great, great vehicle for 99 percent of the population out there who does do charitable gifting, and they make it very easy to gift. Under current tax law you have to save every acknowledgment letter for every gift that's over $250. If you don't have the letter in hand when you go to file your tax return, your deduction could be denied even if you have a canceled check. So some of my ...

CONSUELO MACK: Really. Oh, my goodness.

ELDA DI RE : Some of my clients, the last thing they ever give me in the preparation of their tax return are the stack of acknowledgement letters, and we have to check off. Did they receive all of them, or it's not a good deduction. So even for those that gift annually to their charities, I say why don't we make this easy? One gift to the donor-advised fund, one acknowledgment letter from that fund, and then we don't have to worry about all that paperwork for the 50 charities you want to gift to on an annual basis.

CONSUELO MACK: From the charity's point of view, of course I've talked to some charities about donor-advised funds, and they've said, "They're a great idea but when are we going to see the money?" So from the charity's point of view, they don't think it's fair that you get the tax deduction right away, you as the donor, but they don't get the money right away. What's your response to that?

PAMELA NORLEY: So a lot of the assets that are coming into donor-advised funds are coming in in appreciated securities, mutual funds with appreciation. The charities are not able to take those, liquidate them and get them to their charity. So this is a whole process that we handle with a donor-advised fund is able to take complex assets, private equity, real estate, restricted stock, nonpublic stock and liquidate that so that the money can go into your account and then be given to charity.

CONSUELO MACK What was the statistic, Pam? Was it 60 percent are other than cash and stock?

PAMELA NORLEY: Yes.

CONSUELO MACK: As you just said, restricted stock and real estate. So you can donate that to a donor-advised fund, and it's your problem. You've got to convert that somehow.

PAMELA NORLEY: Yes, that's right.

CONSUELO MACK: Into something that you can give to a charity, but it's really great for the donor.

CONSUELO MACK: Talk to us, Elda, about maximizing the tax advantages of charitable deductions. What are you advising to clients to do? What are the strategies?

ELDA DI RE: The benefit you get for a charitable contribution is based on your highest marginal rate, and that deduction reduced the income that you have that's taxed at that high rate. So when we sit with a client, we first look at what are the right numbers here. What is the maximum you could gift under current law? The limitations for gifting are higher for public charities and donor-advised funds than let's say private foundations. They're the highest for cash and then property gifts. So for example, gifts of property like equities, mutual funds, other complex assets are 30 percent of your adjusted gross income for the year, and that's the limit whether it's a public charity or a donor-advised fund. So first we start with what's the limit. If your charitable contributions exceed that limit, you can carry it forward for five years. It's not lost, but it's helpful to frame it out with what's the limit and, based upon your income for the year, what's the benefit you would get for that limit? Then we look to what are your assets and what are the right assets. Now certainly you could always give cash, but that might not be optimal. The optimal asset is one that had you sold it you'd have long-term capital gains, so something you've held at least a year that has a high amount of appreciation. You get essentially a double benefit. You get a deduction for its value, but nobody pays the tax on the appreciation. It just disappears, so so much better than gifting cash which is why a donor-advised fund in terms of separating the gift from when it has to go to the charity because it could be a bigger amount than you're ready to give to charity, but it might be the right time to get it off your balance sheet. Get a deduction at its value. If it's publicly traded perhaps it's just trading very high, and you want to capture that in terms of a deduction now. You could worry about which charities later.

CONSUELO MACK: Which is why we need accountants. Thinking about this.

PAMELA NORLEY: No question.

CONSUELO MACK: From your point of view, Pam, when you're advising your donors at Fidelity Charitable, are there things that you tell them to make their charitable giving more effective, to maximizing the effectiveness of their charitable giving?

PAMELA NORLEY: So that is something that everybody's looking for. They want to make sure that whatever dollar they're giving, whatever contribution they're making is going to drive an impact for the cause that they care about. So we try to provide educational tools. So much of what we try to do with Fidelity is bring technology and prowess and expertise around an experience with your philanthropy that's similar to the consumer experience you're having with Amazon or any other organization that you're interacting with. So we provide tools and information about the charities on the website so that they can do research to learn the organizations and learn as much as they can about the organizations that they care about so that they can be more informed before they make their contribution. As I said, we also do the due diligence on the back end. So you make a contribution to say a cause in Haiti.
There are a lot of organizations that have been set up to support Haiti, a very, very big need in that country, but there are a lot of organizations that maybe aren't as organized. You're not going to get the same level of impact if you were to give to this organization versus that organization. So we try to provide particularly around natural disasters kind of what the best organizations are for people to be focused on giving to. But it's an ongoing opportunity. There's no question about it. I mean I think about the things that we really want to do is want to create really good, rich information about all the nonprofits that are out there so that our donors are as well informed as they could possibly be about these organizations that are working on the causes they care about.

CONSUELO MACK: Another aspect I understand, if you compare people who use donor-advised funds versus those who do not, is there more family involvement if you have a donor-advised fund? Is that something that happens too?

PAMELA NORLEY: We see certainly with the Fidelity Charitable families that they name the account in the family name. They sit down with their family on a regular basis, generally at the end of the year. Review all the various organizations that the family members care about and then kind of siphon off the money to the causes that they care about and do that through their donor-advised fund. So we've seen a lot of families coming together and doing their philanthropy together, again with smaller amounts.Again, these are people that average account size if $15,000, although people have very significant amounts with Fidelity Charitable as well.

CONSUELO MACK: Elda, you had mentioned the fact that some companies are setting up donor-advised funds as a benefit for their employees. How does that work?

ELDA DI RE: We've seen smaller companies who don't want to fund a company private foundation, don't want the expense of it but do want to give the opportunity for their employees to direct giving. So the company makes a contribution to a donor-advised fund and names their employees as eligible to direct some of the giving, and in this way the company doesn't have to worry about whether the charities that the employees are selecting are good charities. The administration is really offloaded to the donor-advised fund, and yet it's a great tax-efficient gift because the company is getting the deduction for the charitable contribution. The employees are not paying tax because they're not receiving the funds, but they're feeling good about the ability to name the charity for their share of the gift. It's a win-win.

CONSUELO MACK: It's kind of neat.

PAMELA NORLEY: We do administer those as well. We have about 300 companies that have their DAFs with us for their employees.

CONSUELO MACK: Final question for each of you. We ask everyone this on WEALTHTRACK if there's one investment that we should make in a long-term diversified portfolio, what should it be? Pam, do you want to go first?

PAMELA NORLEY: So include philanthropy in the plan. I think that's one of the things that we would say is missing from a lot of the financial plans that people are doing today. They're doing philanthropy. They're making contributions to charities and causes that they care about, but they're not planning around it. They're not actually keeping track of it. They're not thinking about what they're going to need in the future. So we would add it to the plan, make sure that that's part of your long-term thinking with respect to your financials.

CONSUELO MACK: Elda.

ELDA DI RE: In that portfolio, identify the asset that has the highest percentage of appreciation based on its value and think about funding your DAF or foundation with that asset.

CONSUELO MACK: Explain the reasoning behind that.

ELDA DI RE: You get a deduction for the fair market value. No one pays tax on the gain, and if you feel really attached to that asset, then just take the cash you would have given to charity and buy more of that asset. So you're still whole, but you've gotten a deduction for the value, and no one paid tax on the appreciation.

CONSUELO MACK: Two really solid ideas. Elda Di Re, thank you so much for joining us from EY, and Pam Norley from Fidelity Charitable. It was a treat to have you both join us.

PAMELA NORLEY: Thank you.

ELDA DI RE: Thank you.

At the close of every WEALTHTRACK we try to give you one suggestion to help you build and protect your wealth over the long term. This week's action point is:
Consider using a donor-advised fund for your charitable giving.

DAFs allow you to take an immediate tax deduction but take your time in identifying where the money goes and when it is given.
They simplify the record keeping process.
They make it easier to give in smaller and frequent amounts.
DAFs vet the organizations you are donating to.
They appraise and liquidate hard to give assets like real estate and art.
If you are interested in simplifying, consolidating and vetting your charitable giving an established donor-advised fund is worth a look.

Next week we will sit down with contrarian deep value investor Robert Kleinschmidt, whose investments in battered energy stocks paid off the last time he was on. What trashed sector is he shopping in now?

To hear where this week's guests made some key professional decisions please go to our website WEALTHTRACK.com and click on the EXTRA feature. Also keep reaching out to us on Facebook and Twitter. Thank you for watching. Have a great weekend and make the week ahead a profitable and a productive one.