Winds of Change in Philanthropy

By K. Gene Christian

Until recently philanthropy in America had only one face. A person would make a gift outright to a charitable organization of their choosing, and, in return, the charitable organization would provide the donor with a gift receipt—simple, straightforward stuff. However things have changed, particularly during the last 10 years.

Today philanthropy has many faces and is increasingly complicated. As the "baby boomers" begin to enter their retirement years (and data suggest they will do so in a prolific way during the coming 20 years), new and creative charitable retirement and charitable estate planning opportunities are increasing exponentially. Did you know that the Social Welfare Research Institute at Boston College estimates (even after the sobering financial markets following 9/11) that $41 trillion dollars will pass from one generation to the next during the coming 50-year period? Boston College further estimates that charitable organizations may receive between $6-trillion and $25-trillion of that transfer amount.

More than ever before, sophisticated donors are looking at philanthropy as an entrepreneurial venture. They don't simply give money to a charitable organization and hope the organization will do well by the funds received. Instead, they increasingly want to see a tangible impact for each dollar given. They view their philanthropy as the "seed corn" to be leveraged, multiplied, or at least matched in order to turn their initial gift into a "bumper crop" for the cause(s) they care about. These donors are a generation of entrepreneurial givers who want to maintain a certain level of control, even after the gift has been made.

To accommodate this new model of giving, several relatively new giving strategies have come upon the scene. For instance, we now have self-directed charitable remainder FLIP unitrusts, elective start date gift annuities, Donor-Advised Funds (in particular) and the "newbie" on the block called the Donor-Managed Investment account (more about DMI accounts later).

According to a 2004 survey conducted by the *Chronicle of Philanthropy*, Donor-Advised Funds (DAFs) grew by nearly 10% during the previous year, and now a record $11-billion resides in DAFs around the country. Why have DAFs become so popular?—because of the flexibility donors have in helping determine how ***their*** assets are invested and dispersed to the charitable causes they care about.

The most recent addition to the charitable fund family is the Donor-Managed Investment Account, or "DMI Account" for short. In July

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2004, a private letter ruling issued by the IRS (PLR 200445023) allowed donors to work closely with charitable organizations, and even maintain a certain level of control over the gifts that they make. *NOTE: While private letter rulings are not binding in terms of precedent for others, they do provide insight in terms of how the IRS is thinking.*

How a DMI Account Works

In a DMI account structure, the donor and the charity enter into an agreement for a period of time (not to exceed 10 years), where investment guidelines, methods for investment performance, distribution patterns, etc. are adopted. Both the donor and charity receive investment statements, copies of board or action-item minutes, etc. during the 10-year period, at the end of which the funds in question revert to the charity for exclusive control.

As legal owner of the funds, the non-profit retains the right to reclaim the investment privileges extended to the donor at any time. This provision is important for the nonprofit and firmly settles any ownership issues. By doing so, the money / assets are able to grow in a tax-free environment during the 10-year period of the DMI account—in a way that they would not otherwise if the donor maintained exclusive control of the assets in his or her own name and parceled out donations as they went along. Most tax-savvy donors understand the power of tax-free compounding—particularly given their tax brackets.

As one author noted, "...it is not uncommon to find that some large donors feel that they can manage the funds that they commit to a certain charity better than the charity itself. Such donors have become financially successful for a reason, and they often believe so strongly in their own investment acumen that they will only give a small portion of money now—believing that if money / assets remain in their hands it will grow faster as compared to giving it to the charity for investment management." These are the donors who may be most attracted to the new DMI account.

As the winds of change in philanthropy blow, your OSCPA Educational Foundation is well-versed in the technical aspects of charitable planning. If you have a client(s) who fits the above profile, please consider calling us for assistance. We're here to be of service to you!

For More Information: *To learn more about the OSCPA Educational Foundation Planned Giving Program, please contact us at 503-641-7200 / 1-800-255-1470 ext. 25 or 27 and a representative will be happy to assist you.*