



Binding the Family Ties for Future Generations

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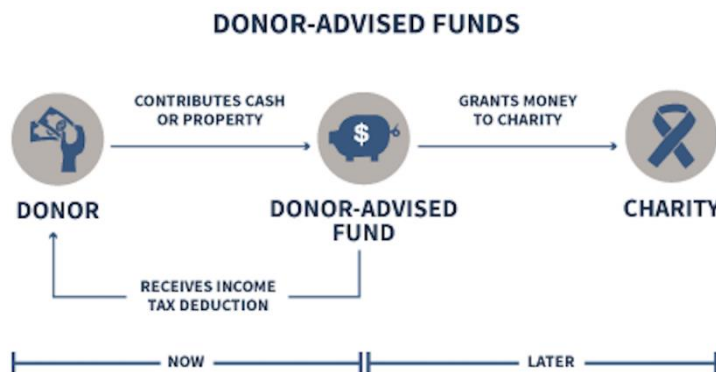
In my industry there is an old quip that suggests most family wealth goes from “shirtsleeves to shirt sleeves in 3 generations”. The first generation makes the family’s fortune, the second builds upon it but also spends somewhat irresponsibly, and by the third generation, in thanks to more irresponsible spending than their parents and less building, they are back to working again (think rolling up shirt sleeves). How can families interrupt this wealth degradation scenario?

When families have a stated mission to give back—with serious, intentional, mindful philanthropy—it has been shown that these families build their wealth along side their charitable giving. So, they give more away and yet they build more wealth? Yes, because they are aligned as a family to make an impact and build a legacy. It is this mission alignment and value alignment that makes an outsized impact on the family’s long-term wealth.

To get started, the first step is simply to start early and be serious about the giving your family

is doing. Among increasingly popular charitable investment vehicles are Donor Advised Funds (or DAFs). A DAF is an irrevocable gift to a public charity (the fund) and is set up in the name of the donor. For example, it might be “The Adam and Ana Jones Family Fund”. The fund is run through another organization that serves as the “back-office” for these donations. Contributing to a DAF during a high-income year is a great opportunity to both maximize your philanthropic efforts and charitable tax benefits.

A DAF allows you to start small and encounter far less of the red tape that comes with private foundations. Furthermore, a DAF is private in so much that your DAF’s grants to nonprofits are not known (unless you announce it) whereas in a private foundation all grants are publicly reported. A DAF also does not mandate a certain cadence with respect to grants. In fact, the capital continues to grow tax free (though it is no longer yours) until you and your family decide which nonprofits you would like to support.



Source: Michael Kitces, www.kitces.com June 2015

What can a DAF do for you?

Through a DAF the donor not only achieves tax savings but also initiates a charitable legacy:

- The donor has the freedom of making grants to charities of their choosing and at the time of their choosing.
- The donor will incur no capital gains tax on gifts of appreciated securities provided that they held them longer than one year.
- Their donor advised fund will not be subject to estate taxes.
- The investments in a DAF can appreciate tax-free. Often, the donor's financial advisor can still manage the charitable assets.
- If the donor is subject to alternative minimum tax (AMT), their contribution into a DAF will reduce their AMT impact.

A Donor Advised Fund makes philanthropic giving easy—one simply asks the fund to distribute a portion of their fund to any approved (and they often have databases that list nonprofits to ensure complete compliance of the IRS code) nonprofit. So, imagine your family gathered around the dining room table a few times a year to decide together where the Fund should be distributed. This goes back to the idea of building a charitable legacy. You and your family can work together to decide what causes are better than others. Which organizations seem better suited given their reach and depth as opposed to other less established ones. Or maybe the grassroots organizations, given that they are operating with less resources, could use the donation more. These are the same types of questions that would be discussed at any philanthropic group's grant making meeting. The difference here is that it does not need to be cut

in stone. That is, it might change from time to time as the grantor's (your) philanthropic interests change.

The bottom line is that Donor Advised Funds are good in many instances where a donor wants a simplified philanthropic vehicle. One where they can request a donation be sent from the fund at any time (although, as stated above, these requests do not have to be adhered to by the DAF). It is a great way for a philanthropically minded family to start building their legacy. Family retreats and holiday gatherings are a great time to discuss your families giving, volunteering, and values. These types of interactions develop a family's legacy and builds lasting ties through a shared philanthropic mission. One that is more likely to flourish than those without a stated philanthropic/value mission.

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