HOME / BUSINESS

Maximising the impact of your giving: why a dedicated trust is critical

PREMIUM

January 04, 2024 07:00 am | Updated 07:00 am IST

SREEPRIYA N.S.

COMMENTS SHARE READ LATER

Traditionally, philanthropy has always been associated with the ultra-rich wherein some of the world's wealthiest people and families donate vast amounts of their wealth towards noble causes. However, with the recent rise of a new cohort of young entrepreneurs who have witnessed success with their unicorn start-ups and other innovative tech-powered companies, philanthropy has been seeing a change. This is because more and more of these new-age business leaders recognise the need for social responsibility and they aren't waiting until they've spent decades in the business world. Instead, they are taking an early proactive stance to support various causes. And while this is most definitely a step in the right direction, one always has to account for unforeseen circumstances and the need for effective management and distribution of funds. This is where the role of a separate trust comes into play.

Building And Nurturing A Legacy Via A Dedicated Philanthropic Trust

Most entrepreneurs today are acutely aware of the transformational power that wealth can have when aligned with the right causes. Hence, when they pledge their hard-earned money, it is with the intention to affect actual change and create true opportunities. However, any long-lasting change takes years if not decades. This is why entrepreneurs must realise that in order to secure their philanthropic legacy, they have to risk-proof it. For instance, what happens to a given pledge in the event of incapacitation or unforeseen circumstances such as a sudden health emergency? Would their children or next of kin be aware of what needs to be done or be able to continue supporting the causes their parents had pledged towards?

These questions are highly relevant, as an increasing number of entrepreneurs are making charitable pledges at a young age thanks to the substantial profits they have garnered from their successful businesses. However, we know that life is unpredictable, and these individuals may face situations where they are unable to execute upon their philanthropic interests due to incapacitation or death. Thus, by creating a separate trust, they can ensure that their interests are protected and managed in accordance with their wishes. Setting up a separate philanthropic trust and distinct management for the same can go a long way in establishing a culture of giving back to society right from the incorporation of such trusts. **And by establishing a trust for philanthropic endeavours, entrepreneurs can direct funds towards these causes while simultaneously prioritising their business pursuits.**

In addition to securing one's wealth beyond their lifetime, creating a separate philanthropic trust also has other key benefits such as:

Clear Governance and Legal Structure: A distinct trust offers a legal framework for handling and allocating assets, guaranteeing a definite division between personal and charity assets. This enables the donor to guarantee that their needs are addressed and is essential for well-organised and transparent charity giving. The trust also specifies the obligations of the trustee and the settlor, offering a transparent governance framework for the responsible conduct of charitable endeavours.

Where a single trust structure is used for both personal estate planning and philanthropic purposes, there is a possibility of legal dispute amongst the beneficiaries and trustees at the time of distribution of the trust corpus which might not be aligned with the intentions of the settlor. Also, donors often commit to donating funds in a phased manner over a period of 2-5 years, depending on the progress and stage of the activity. For instance, if a donor has pledged to donate a certain amount of money towards the establishment of a medical research centre in the city, they would typically sign an MOU with the organisation responsible for setting up the centre, and disbursements would be made on a stage-by-stage basis. This is why it is crucial to set up a separate trust for philanthropic activities that can exclusively carry out the vision of the donor without any issues that may arise in the future.

Professional management: Setting up a separate trust for philanthropic interests allows donors to hand over the management of the trust to professionals who are experienced in managing philanthropic organisations. This includes ensuring that funds are not played around with and are guarded by conservative investments, reducing the risk of losses and heavy expenses. For example, administrators or wealth managers of a trust usually understand their client’s need to create a philanthropic legacy and develop investment policies that prioritise the eventual transfer of funds to charitable causes. By keeping philanthropic assets separate and classified as such, those managing the trust can focus on conservative investment strategies, ensuring the safety of the capital and reliable returns. This approach minimises the risk of excess debt and maximises the impact of philanthropic giving. This ensures that the trust’s assets are managed professionally and that the funds are used effectively to support charitable causes.

Tax Implications: A separate trust may also have significant tax ramifications. Charitable trusts are frequently set up in a way that provides tax advantages to both the donor and the non-profits they support. For instance, it is possible to set up a charitable trust so that the trust’s tax obligations and those of the charitable organisations it supports are kept to a minimum while still allowing for a tax deduction for the donor’s generous donations.

In conclusion, a separate trust is an essential tool for anyone who wishes to give back to society. It gives them the ability to successfully manage their charitable interests, assure openness and accountability, and build a long-lasting framework for social change. More and more business owners, today, are realising the value of social responsibility, and creating a distinct trust is a critical first step in making sure their charitable initiatives are managed as efficiently as possible and have a long-lasting positive impact on the world.

(The writer is Director and COO, Entrust Family Office)

COMMENTS SHARE

Latest News

46 mins ago - Kerala
Top Kerala news developments today

49 mins ago - World
New Jersey imam shot dead outside mosque, no suspect or motive identified

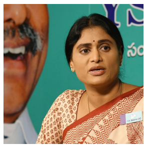
1 hour ago - Telangana
Top news developments from Telangana today

1 hour ago - India
Ram or Ram Mandir doesn't belong to BJP, Uddhav tells anganwadi workers

READ MORE STORIES

Trending

Ind vs SA 2nd Test | India collapse sparks hope for South Africa



Y.S. Sharmila accepts Congress's invitation to join party, to leave for Delhi on January 3

Thiruvananthapuram airport to add three more international services to various destinations

Japan quake toll rises to 62 as weather hampers rescuers

Recommended

GOVERNMENT OF TELANGANA
ABSTRACT

IAS - Transfers and Postings - FAC - Orders - Issued.

GENERAL ADMINISTRATION (SPL-A) DEPARTMENT

G.O.Rt.No.03 Dated:03.01.2024.
Read:

G.O.Rt.No.1650, GA(Spl.A) Dept., dt. 15.12.2023

*****

ORDER:

The following transfers and postings of IAS Officers are ordered:

1. Sri Benhur Mahesh Dutt Ekka, IAS(1995), Addl. Director General, Dr. MCR HRD Institute is transferred and posted as Prl. Secretary to