Knowledge Is Power: Understanding Your Donor’s Personality and Motivations

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Introduction

A famous football coach once told a story about being on vacation with his wife in an area where he expected no one to know him. The coach and his wife decided one afternoon to see a movie at the local theater. When the coach and his wife walked into the theater there were not many other people there. As the coach began to sit down, all of sudden the other patrons in the theater began to applaud. The coach was amazed about the response he received even in an area where he expected to be unknown. The coach wondered to himself if he should acknowledge the other movie patrons and stand up and say something. Instead, the coach leaned over to a man who was seated near him and expressed his surprise that he was so well known even in this area far away from his home. The man was perplexed. He then told the coach that he did not know who he was but that just prior to the coach walking into the theater, the manager told the other patrons that because the attendance for the movie was so small, if at least two other people did not show up the movie would be canceled.

In today’s world, charities are depending more and more on donations from the private sector. In fact, it has been estimated that over the next 20 years, $41 trillion will pass from the private sector to charities. Further, because of the Internet and the media, donors are more sophisticated then ever before and want to trust their advisors and the charities to which they make gifts.

The story of the famous football coach can provide some insight into the relationship that may exist between a charity or advisor and a donor. The football coach assumed that he knew the reason why everyone was applauding his entrance into the movie theater. Instead, however, the other movie patrons were motivated to applaud for a different reason. Likewise, charities need to guard against assuming that they know the reasons and motivations that push a donor to make a charitable gift. Donors more than ever want to trust the charities with which they have a relationship. Therefore, it is incumbent in today’s world that advisors and charities be “in touch” with their donors.

Being in touch with a donor often means understanding the donor’s personality. This article focuses on three steps to understand a donor’s personality: (1) the donor’s personal profile; (2) the nonpersonal motivations for making the gift; and (3) the donor’s personal motivations for making the gift. In some instances all three of these steps may be important to understand a donor’s personality, and in other instances focusing on one single step may uncover a donor’s personality. However, when a charity and advisor understand a donor’s personality, the parties often succeed in structuring a gift that satisfies both the charity and the donor.

The Donor’s Profile

The first step to understanding a donor’s charitable personality is to determine the donor’s profile. A donor’s profile is equated to factors that make up a donor’s demeanor and lifestyle. Three of the factors that commonly affect a donor’s profile are (1) the donor’s family situation; (2) the donor’s control level; and (3) the donor’s complexity level.

Family Situation. A donor’s family situation has a significant effect on a donor’s profile. Specifically, whether a donor has living descendants will play an important role in the donor’s ideas about philanthropy.

Married couples with no descendants, unmarried individuals, and surviving spouses with no descendants often have similar inclinations toward gifts to charity. Generally in these situations there is a tendency both during lifetime and upon death to allocate a portion of such individual’s wealth to charity. However, in these situations, a donor often likes to establish a personal relationship with the charity during lifetime. By so doing, the donor can feel confident that his or her assets will be given to a trusted organization.

If the charity and advisor understands See KNOWLEDGE IS POWER, next page

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Nonpersonal Motivations: The Numbers and the Assets

Once a donor’s profile has been determined, the next step to understanding a donor’s personality is to determine why the donor wants to make a gift. Most times a donor’s motivation to make a gift is simply goodwill. However, if goodwill is not the sole motivation, then motivation to make a charitable gift is often a combination of the following two categories: (1) the numbers and (2) the assets.

The Numbers. Charitable gifts sometimes are all about the numbers. For example, a tax benefit is often a primary motivation for a donor to make a charitable gift. If a donor has a large income tax liability in the current year, the donor will often look to obtain a charitable income tax deduction to offset the income tax liability.

If income taxes are a primary motivation, the advisor and the charity must structure the gift to fit not only that purpose but also the donor’s profile. For example, if the donor’s profile is noncontrolling and not complex, then a straight outright gift to a public charity will both satisfy the donor and accomplish the donor’s tax-motivated goals. If the donor’s personality is more “controlling,” then a gift to a supporting organization, donor-advised fund, or community foundation (all of which may qualify as a public charity) may be better. A gift of cash to one of these types of entities will likely still allow the donor to realize the full income tax deduction in the year of the gift, while still maintaining some control over the gifted assets.

The Assets. Charitable gifts can sometimes also be about the assets. The most common form of this situation is a donor that has an asset with a low basis which if sold would result in a large tax gain; however, if the asset is donated to charity the donor would receive an income tax deduction. Again, it is incumbent upon the advisor and the charity to fully review all of the donor’s assets and to structure a gift in a way that both works with the asset but...
also fits with the donor’s profile and ultimate goals. By suggesting creative ways to use the donor’s assets for a charitable gift, the donor will feel that the advisor and charity are taking the extra step to work with the donor and the donor and charity relationship will be further strengthened.

Closely held corporate stock is an asset that may work. For example, a donor may own closely held corporate stock with a low basis that the donor would like to sell to a third party but also would like to gift some or all of the proceeds from the sale to his favorite charity. Instead of the donor making the outright sale to the third party followed by a subsequent gift to charity, the advisor and charity instead could suggest that the donor gift a portion or all of the stock to a public charity, which in turn can find a buyer for the stock. Because the gift is to a public charity, the donor will get a full fair market value income deduction (rather than a deduction limited to the donor’s basis if the stock were gifted to a nonoperating private foundation) and the stock will ultimately be sold to a third party.

Real estate is another often low-basis asset that may fit for a charitable gift. After examining a donor’s personality, an advisor or charity may suggest that a donor gift low-basis real estate to a charitable remainder trust. The donor would receive a current income tax deduction based on the current fair market value of the real estate and receive an annuity for the term of the trust. As an additional benefit, the donor could then replace the value of the real estate by using the annuity to purchase an insurance policy on the donor’s life. If the insurance is held in an irrevocable insurance trust, the insurance proceeds will be shielded from estate taxes on the donor’s death.

Works of art and other collectibles also have interesting potential for charitable giving. Whether or not the assets will be used by the charity for the organization’s own charitable purpose will be important in determining the applicable percentage limit for the income tax deduction.

A gift from an individual’s individual retirement account (IRA) is currently a great asset for a charitable gift and is convenient and not complex. The Pension Protection Act of 2006 created a new charitable planning opportunity under which an IRA owner age 70½ or older may make a direct transfer to charity.2 The transfer may be up to $100,000 in one year. While this planning opportunity is set to terminate on December 31, 2007, Congress has stated that it will review the success of the IRA rollover and may extend its end date or reinstate the provision at a later date.3 In addition, an IRA is an excellent source of funds for charitable bequests as both estate and income tax can be avoided.

**Personal Motivations: The Public Goodwill**

Once the advisor and charity have reviewed the donor’s profile and the donor’s assets, the final step to a donor’s personality is to understand the donor’s motivation for the gift. Donors are often personally motivated to make a gift to a particular charity by the following: (1) personal recognition, (2) relationship with the charity, and (3) creating a model for younger generations.

**Donor Recognition.** As donors and charities become more sophisticated and charitable giving amounts increase, donor recognition is often a motivating factor for a charitable gift. From the charity’s view, charitable organizations are finding that naming rights are a great way to increase charitable gifts. From the donor’s view, a donor often likes, and even sometimes requires, the personal recognition that is associated with the charitable gift.

If a donor is concerned about recognition, the advisor and the charity should suggest ways to accomplish that goal. For example, charities often publish an annual article that lists the names of its major donors. Charities can also suggest other creative ways to obtain public recognition for the gift. For example, naming rights are often associated with scholarship funds, buildings, classrooms, and even bricks at stadiums. Charities may also suggest that a donor use his donation to sponsor a charitable event.

While donor recognition has become very popular, it is important that the charity handle this issue with care. Donor recognition can often be a source of controversy between the donor and charity after the gift has been made. For example, much litigation has arisen surrounding naming rights and the ability of the charity to remove that public recognition when the charity does not want to be associated with the donor’s subsequent conduct. Therefore, when public recognition is involved, both the donor and the charity should enter into an agreement (even if a simple agreement is all that is needed) that defines the terms and conditions of the public recognition for the donor.4

**Donor Relationship.** The relationship a donor has with a charity is another motivating factor that is part of the donor’s personality. If the advisor and the charity examine the donor’s relationship with the charity, a gift can be structured that will provide more personal satisfaction to the donor.

A donor relationship may be as simple as the donor being a graduate of the educational institution to which the gift is being made. In this case, the advisor and charity should explore whether the donor wants to benefit the educational institution at large or, instead, a specific curriculum or extracurricular activity in which the donor was involved. As a result, the donor will likely feel a greater sense of purpose with the charitable gift.

A relationship between the donor and the charity could also result from a special tie that the donor has with a charity. For example, a donor may choose to support the American Cancer Society because a relative was diagnosed with cancer. The donor will appreciate that the advisor and charity took the time to determine the motivations behind the gift and the relationship between the donor and the charity will be strengthened.

The community may also form a special relationship between a donor and a charity. Community foundations are an example of this relationship. A donor looking for a charity to support should be advised if there is a community foundation located in the area in which he or she lives. In this case, the donor may form a special relationship with the community foundation and both can work together toward a common goal of enhancement of the area.

**Younger Generations.** The third personal motivation that often is part of a donor’s personality is the hope to establish a model for younger generations. Donors who give to charity may want younger generations to know about the gift.
and many times even want the younger generations to be involved with the gift. When the advisor and charity find this out, they can structure the gift to fit these goals.

The private foundation is a perfect means to accomplish this part of the donor’s personal motivation. A private foundation that is organized as a corporation will require board members and often officers. The donor may appoint adult children to the board or as an officer. As a result, the children will it is hoped learn about corporate formalities and business operations. The children may also be given the responsibility of researching and approving the organizations that will receive a distribution from the private foundation. In addition, the children will have a sense of involvement in the foundation and also provide them with an impetus to learn about the many different philanthropic opportunities available to them.

**Conclusion**

It is of primary importance for an advisor and charity when working with a donor to understand the donor’s personality and motivations. Several significant goals are accomplished by obtaining a good understanding from the donor. First, the donor’s gift can be structured in a way that not only achieves the donor’s goals but also gives the donor a greater sense of personal satisfaction. Second, the donor’s trust of the advisor and charity will be strengthened. Finally, the charity will have established a stronger relationship with the donor by which the donor can continue to feel comfortable about making additional gifts and referring other potential donors to the organization. In the end, understanding a donor’s personality and motivations may take a little additional time with the donor, but the benefits to the donor, advisor, and charity may be well worth the effort.

**End Notes**