FINANCiAL *fitness*

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Contemplating Charitable Giving? Consider a Donor Advised Fund

Donor-advised funds ("DAFs") are charitable giving vehicles offered by a public charity that enable organizations, families, and individuals to make contributions and receive an immediate tax deduction, while retaining flexibility regarding the management of funds and the timing of distributions. First established in 1931, DAFs have grown in popularity and are now the fastest growing charitable giving vehicle in the United States. There are currently more than 175,000 donor-advised accounts, housing over $37 billion in assets.[1]

To utilize a DAF, a donor would first open an account with a charitable organization, such as Fidelity or Schwab Charitable. Once the account is open, an irrevocable contribution of cash or securities may be made, allowing the donor to receive an immediate tax deduction. Donors can receive a deduction up to 50% of their adjusted gross income (AGI) when donating cash and up to 30% of AGI when gifting appreciated securities, mutual funds, real estate, and other assets. Since tax deductibility limits vary by asset type and are subject to a five year carry forward, thoughtful tax planning should be utilized to ensure the successful deduction of all contributions.

Advantages Versus Traditional Charitable Giving

The ability to donate low basis appreciated stock without realizing and recognizing capital gain taxes is a valuable tax benefit of DAFs. If you have appreciated stock that you have held for more than a year, you can donate it to your charitable account and deduct the fair market value of the asset. By donating the security and allowing the tax-exempt charity to sell the security for cash, any capital gain taxes are avoided, thereby allowing a greater contribution to charity.

A standard DAF can allow donors to recommend investments from among a variety of investment options. This allows the donor to continue to have discretion regarding how their account is invested. If donors would like to involve their investment advisor in assisting them with their donor advised fund, they may do so by having their advisor receive copies of their monthly statements, or by allowing the advisor to link the DAF to their master account on the platform where the DAF is established.

Once your DAF account is funded, you can recommend grants at any time to any IRS-approved 501(c)(3) public charity. Typically, the minimum annual distribution is 5% of the account balance. Therefore, while the tax deduction is taken upfront, the donor does not have to distribute the entire account balance in the same year. Rather, they can take their time to disburse grants, providing an undecided donor more time to determine where they would like the funds to be allocated. Recommended grants can be accompanied by letters personalized with your DAF name, or you can elect that grants be sent anonymously. While the charity that sponsors the fund technically can make the final determination as to the disposition of the assets, it is uncommon that the donor's requests go unfulfilled. Therefore, most grants are tied to the underlying preferences of the original donors.

Other advantages of this alternative form of charitable giving include, but are not limited to, administrative ease, cost savings over private foundations, as well as the ability to build a charitable legacy for your family. DAFs are easy to setup and administer. Additionally, the cost savings associated with contributing to a DAF versus establishing a private foundation are substantial. A private foundation requires anywhere from 2.5% to 4.0% in fees on an annual basis to cover operating expenses. Compare this to the much lower administrative fees charged by most DAFs, in addition to their administrative ease, and it is no wonder why they have become so popular.

Funding a future of charitable giving, and sharing these values with your family can be tremendously fulfilling. DAF make it easy for children and parents to get together to discuss what matters to them and how they can make a difference by talking about which charities to support. This fosters a unique opportunity to teach compromise and consensus-building and offers a venue to discuss shared values.

What are the drawbacks to DAFs?

As with any kind of investment vehicle, there are some drawbacks associated with DAF's. These include, but are not limited to, the inability to accept donations of illiquid assets, as well as the types of organizations a DAF can make contributes to. Illiquid assets include the ownership of a private company, real estate, art, and limited partnership interests.

[1]Charitable Giving Statistics by NPTrust.

Sandy Carlson has over eighteen years of wealth management experience including income taxation, retirement planning, executive compensation planning, insurance, banking, trust administration and estate planning. She is a Certified Divorce Financial Analyst™ (CDFA) and also holds the QKA designation by the American Society of Pension Professionals & Actuaries. She is President-Elect of the Financial Planning Association, a Tax Instructor in the CFP Program at Queens University, and is a member of the Charlotte Estate Planning Council. Sandy values getting to know her clients and providing creative, integrated solutions for accumulating, preserving and transferring wealth.