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DONOR-ADVISED FUNDS

Stop Writing Checks to Charities

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Philanthropy significantly and positively impacts individuals, communities, and even nations. Witness the actions of Bill and Melinda Gates that have improved health care and education, or the American Idol Gives Back Foundation's service to young people in poverty, or the passion that Andre Agassi showed by founding the Andre Agassi College Preparatory Academy, a model charter school located in one of Las Vegas' most at-risk neighborhoods.

Examples of giving and its broader impacts surround us, so why the title of this article?

Because there is a more-efficient way to give, a way to get more to charity and less to the government without increasing the amount you give. It eliminates the year-end rush to get checks in, and reduces the time you spend accounting for various gifts and thus may lower your tax preparation fees. It can systematize your giving and further help your charities by delivering a regular cash flow rather than, or in addition to, annual gifts. And, if you are like me, perhaps it could help you wrestle that devil on your shoulder that says: "Are you sure you should be giving away this money? You're already generous enough. Maybe you should wait until later."

All this is possible in a donor-advised fund, an easy-to-establish, low-cost, and flexible charitable-giving tool.

Donor-Advised Funds

A donor-advised fund (DAF) provides for an individual or family to make an irrevocable contribution of personal assets to a public charity and recommend the investment of those assets. Donations to a DAF earn an immediate federal income tax deduction. Once in the DAF, the assets grow free of capital gains and income taxes and the donors recommend grants to charitable organizations on their own timetable. A DAF is simpler than donating securities directly to multiple charitable recipients; it calls for less paperwork and fewer receipts. A DAF is more flexible because it can easily accept a wider range of donated personal assets including art, jewelry, real estate, life insurance policies, and retirement plan assets. DAF donors make the donation, take the tax deduction, protect future growth in the assets from taxes, and recommend charitable grants—it is that simple.

DAF administrative services typically include the following:

- One-time or recurring check disbursement (e.g., in addition to a one-time gift, the donor might instruct the DAF to send $2,500 per quarter to the named charity)

Table 1: Tax/Giving Advantages of Contributing Appreciated Assets to a DAF versus Selling an Asset and Donating the Cash (15% Capital Gains Tax/35% Ordinary Income)

	Donor Contributes Assets Directly to DAF	Donor Sells Assets and Donates the Cash to Charity
Value of Assets	$100,000	$100,000
Donor's Capital Gains Tax @ 15%	$0	($10,500)
Net Donation to Charity	$100,000	$89,500
Tax Deduction to Donor @ 35% Bracket	$35,000	$31,325
Net Tax Benefit to Donor (Tax Deduction less Taxes Paid)	$35,000	$20,825

Table 2: Tax/Giving Advantages of Contributing Appreciated Assets to a DFA versus Selling an Asset and Donating the Cash (20% Capital Gains Tax/40% Ordinary Income)

	Donor Contributes Assets Directly to DAF	Donor Sells Assets and Donates the Cash to Charity
Value of Assets	$100,000	$100,000
Donor's Capital Gains Tax @ 20%	$0	($14,000)
Net Donation to Charity	$100,000	$86,000
Tax Deduction to Donor @ 40% Bracket	$40,000	$33,000
Net Tax Benefit to Donor (Tax Deduction less Taxes Paid)	$40,000	$19,000

- Charitable organization research (e.g., a donor is interested in supporting inner-city nutritional education, so the DAF may help identify a short list of such organizations within the donor's community)
- Custom naming of the DAF (e.g., the Smith Family Charitable Fund)
- Custom successor naming to your DAF to promote multi-generational charitable activity
- Flexibility to donate anonymously

Typically, annual DAF fees represent approximately 1 percent of the DAF value; however, fees vary from provider to provider.

Contributing assets to a DAF has the potential to allow the donor to give more to charity and receive a higher personal tax benefit than would be the case with other forms of giving. Table 1 shows the tax and giving advantages of contributing appreciated assets to a DAF versus selling an asset and donating the cash. In this example, $100,000 in long-term appreciated assets is donated with a cost basis of $30,000.

Table 1 shows that by donating appreciated assets directly through the DAF, the donor pays significantly less tax and gives nearly 12 percent more to charity—simply by giving in a different way.

Table 2 shows that for higher tax rates, the results are even more favorable for both the donor and the charity.

Table 2 hypothetically illustrates the use of tax rates that may apply soon if lawmakers allow current tax rates to expire. The donor's net tax benefit grows beyond that shown in table 1 and approximately 16 percent more money gets to the charity.

The message: Give appreciated assets to charity and stop writing checks.

Remember the "devil on the shoulder"? I'm embarrassed to admit that I am not always the cheerful giver I should be. The DAF structure has helped. It has compressed our charitable activity from a half-dozen decision points (church, alma mater, homeless shelter, missionaries, etc.) to one. I only need to wrestle that devil once. My wife and I now make a single decision at tax-planning time about which asset(s) to contribute to our DAF. Then we can take our time determining charitable recipients of those assets. This has greatly increased the cheer associated with our giving.

The benefits of a DAF are numerous. A DAF is an easy-to-establish, low-cost, and flexible charitable-giving tool. Charitable-giving strategies should be considered an element of your comprehensive personal financial plan, and the evaluation, selection, and management of a DAF should be coordinated with your financial advisory team.

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