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“Making a Charitable Impact with Donor-Advised Funds”

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Many people have a desire to make a substantial charitable impact. Perhaps this is tied to an organization they are involved in or with a religious affiliation. There is generally some form of emotional attachment to the cause that someone would like to impact.

How much can or should I give? Can my gift be specific to an area of the organization that I support? How would this affect my long-term financial plan? What impact will this have on my estate plan? What about the tax benefit? These are all valid questions that can become obstacles to making substantial gifts.

Of course, this is an important decision that requires a thoughtful approach and a discussion of it with trusted advisors. There are many tactics to accomplish making a charitable gift. For the purposes of this article we wanted to highlight a strategy called a Donor-Advised Fund. In general, a Donor-Advised Fund allows individuals to make a donation to their fund, receive an immediate tax deduction, and gives control as to when a gift is made to a qualified organization of their choice. This strategy provides a simple avenue for creating a pool of charitable funds, receiving an immediate tax benefit, maintaining control of who gets it, who it goes to and when, and the opportunity to invest the funds while they are in the charitable fund to potentially increase the impact they have.

We've had experiences with several clients that have used this strategy and found it useful for different reasons. One strategy could be from having a high concentration in one or a few stocks with low cost basis. So, instead of giving cash to fund the Donor-Advised Fund, shares of the low cost basis stock could be given instead to maximize the tax benefit. A second strategy is one where there may have been a significant realization of income during a particular tax year, such as the sale of a business. The Donor-Advised Fund can provide a flexible vehicle for future gifts (without immediate commitment of who the recipients would be) while receiving an immediate tax deduction for the tax year to help shelter some of the income recognition. Lastly, another example would be someone having a high current income and a desire to be charitable over time, but having uncertainty as where the gift should be made. The Donor-Advised Fund provides the vehicle to receive the tax benefit immediately while providing the flexibility of making gifts over time.

In summary, there are many considerations in making substantial charitable gifts. The Donor-Advised Fund is just one of these strategies and it is gaining traction given its flexibility and ease of administration. Be sure to give consideration to various charitable giving strategies and the details of each to make sure it fits with your overall financial plan.

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