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Clarity Point Financial Partners

Donor Advised Fund

Recent changes to the tax code and improved offerings from investment custodians have helped to fuel a dramatic surge in new Donor Advised Funds. Below, we explore these funds in general, and discuss some of the unique advantages that they can provide.

What is a Donor Advised Fund

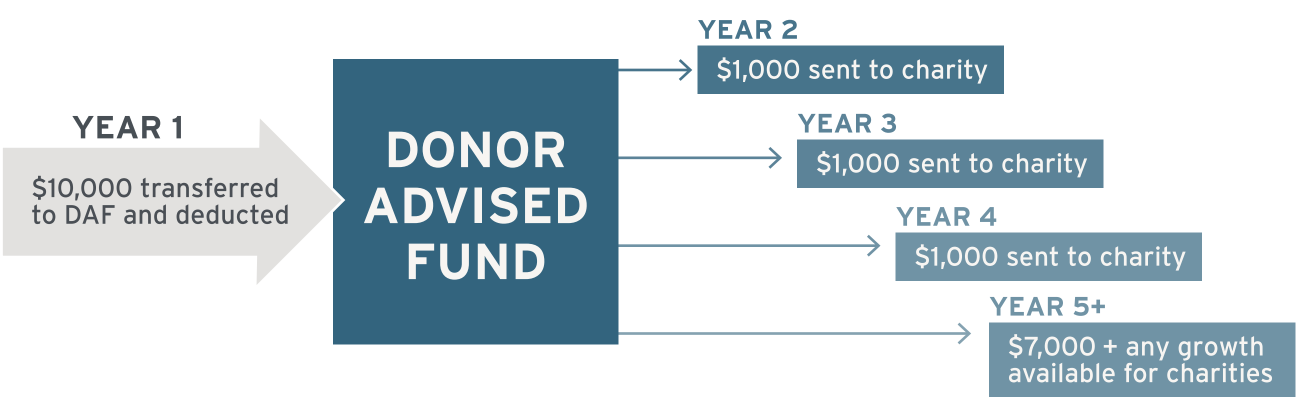
A Donor Advised Fund is a charitable account that allows you to make and deduct charitable contributions today, even if you haven't yet identified which charities will eventually receive those funds. Essentially, at a low minimum account size, it allows you to take an immediate tax deduction for your contributions—then you can choose which causes you wish to support and when. These funds are far easier to set up than private foundations, are less costly to administer, have much lower minimums, and are much more flexible. Also, the Tax Cut and Jobs Act of 2017 increased the standard deduction for many tax filers – making Donor Advised Funds even more popular for those who give to charity regularly.

Streamline Your Recordkeeping

During a typical year, many of us give money to a number of organizations using a variety of methods: such as cash, check, credit cards, or even appreciated securities. When tax time comes in the spring, it can be very time consuming to compile all of those donations in order to total them for your tax return. Furthermore, in the event of an IRS audit, you could be required to provide supporting documentation for each donation as well. With a Donor Advised Fund, because you deduct your donations to the fund itself, your qualified charitable donations that are sent from the fund are not also tax-deductible. So, if you were to contribute $5,000 to your Donor Advised Fund, then distribute $500 to ten charities, only the single $5,000 contribution should need to be documented as part of your tax return.

Taking Advantage of a Higher Income Tax Bracket

One potential tax benefit of using a Donor Advised Fund is that it can allow you to make and deduct charitable contributions during higher income years, when those deductions are typically more valuable due to a higher tax bracket. Then you can distribute donated funds to charities later, during lower income years, when tax deductions might be worth less.



"Bunching" of Itemized Deductions

Another concept is what's referred to as "bunching" donations. A recent increase to the standard deduction has meant that far fewer people are itemizing their deductions than before. If you don't itemize your deductions, you still get the psychological benefit of donating but there is likely not much tax benefit. However, by bunching your donations into one tax year, your itemized deductions might exceed the standard deduction, which means that you would once again be getting a tax benefit for your charitable giving. With a Donor Advised Fund, those contributions that are made in one tax year can be distributed to charities for many years into the future.

Contributing Appreciated Assets

Another benefit of Donor Advised Funds is the ability for you to contribute stocks, mutual funds or non-publicly traded assets, which many charities may not be able to accept. This can provide you, the donor, with an extra tax benefit: if you donate appreciated securities with unrealized long-term capital gains, you can most likely deduct the entire value of the donated holdings. So not only could you benefit from a tax deduction for the donated security, you can later diversify that holding inside the Donor Advised Fund without triggering any capital gains tax. If you had previously been planning to donate cash, you can now use that cash to replace the donated securities in your portfolio.

Investment Flexibility and Management

Donor Advised Funds typically have robust investment options and can even be professionally managed by an investment advisor alongside your portfolio. Like I mentioned earlier, it also allows you to take an appreciated or even concentrated position from your portfolio and diversify it without needing to worry about capital gains taxes. This can reduce the overall risk of your investments, while allowing for better diversification and potentially improving your after-tax returns. Plus, the money invested in the Donor Advised Fund may grow over time, allowing for larger gifts to charities down the road.

Creating A Legacy of Giving

Another potential benefit of a Donor Advised Fund is its ability to be part of a larger, family philanthropic conversation across multiple generations. For parents who find themselves fortunate enough to create one of these funds, they can foster a family conversation around philanthropy, involving their children who may not yet have much money to allocate to charities they would like to support. Because a Donor Advised Fund doesn't expire, it can also be handed down from generation to generation. This can allow your family to create a legacy of giving that can span decades, without needing a fortune to get started.

> If you have questions about Donor Advised Funds or other strategies that can benefit both charitable organizations and your family for years to come, please reach out to a member of our team. We will be happy to have a deeper conversation, focusing on your financial and personal goals for the future.

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