

DONOR-ADVISED FUNDS

DEFINITION

These are charitable giving vehicles where an individual or entity makes an irrevocable contribution of personal assets to a charity and at any time thereafter can recommend distributions to qualified charitable organizations. Donor-advised funds provide the opportunity to have a low cost, flexible vehicle for charitable giving as an alternative to direct giving or setting up a private foundation.

FEATURES

HOW THEY WORK

The donor contributes the amount to the donor-advised fund and the donor is eligible for an income tax deduction at that time. These donations to the fund can include various types of assets such as cash, publicly traded equities, fixed income securities, and pre-IPO stock shares. The donor can then invest the contribution proceeds in different types of investments and once the donor wants to make charitable contributions, they provide the required information to the fund administrator to process them.

TAX DEDUCTION

Donor advised funds allow donors to take a federal income tax deduction up to 50% of adjusted gross income (AGI) for cash contributions and up to 30% of AGI for appreciated securities.

FUND ADMINISTRATION

Since there are operating costs associated with these funds, most third party administrators assess an annual fee which usually ranges from 0.50% to 1.00% and these fees are typically withdrawn from the fund directly.

ADVANTAGES

- They provide the capability to receive one group of securities that can benefit multiple charities.
- There is a separation of tax planning and charitable giving as the donor receives a tax deduction when contribution is made, but donations to a charity can be made later.
- One contribution can benefit multiple charitable organizations while only requiring one tax documentation letter.

DISADVANTAGES

- There are administrative fees and usually minimum balance and contribution requirements in these funds.
- The donor does not retain full control over the fund as any contributions the donor wants to make needs to first be approved by the custodian of the fund. However, since the process is usually automated, as long as the charity is a 501(c)(3) registered non-profit organization, the donation will likely be approved.

This material is for informational purposes only. The information expressed in this document is as of the date of its publication and is subject to change. Please contact your financial advisor regarding the application of these issues to your business and individual circumstances.

