

# DONOR ADVISED FUND

A donor-advised fund is like a charitable investment account, for the sole purpose of supporting charitable organizations you care about. Sponsoring organizations such as banks, investment companies and mutual funds have established *public charities* (e.g. Bank of America Charitable Gift Fund, Morgan Stanley GIFT, Fidelity Charitable). When you contribute cash, securities or other assets to a donor-advised fund at a public charity, you are generally eligible to take an **immediate tax deduction**. Then those funds can be invested for tax-free growth and you can recommend grants to virtually any IRS-qualified public charity.

When you give, you want your charitable donations to be as effective as possible. Donor-advised funds are one of the easiest and most tax-advantageous ways to give to charity.

## How a Donor-Advised Fund (DAF) works

### 1. Make an irrevocable donation

Within your sponsoring organization's *public charity*, donate cash, stocks or non-publicly traded assets such as private business interests, cryptocurrency and private company stock to be eligible for an immediate tax deduction. A contribution to a donor-advised fund is an **irrevocable commitment** to charity; the funds cannot be returned to the donor or any other individual or used for any purpose other than grantmaking to charities.

### 2. Immediate tax deduction in current year; periodic and or discretionary donations in future years allows bundling of charitable donation.

As soon as you contribute to your Donor Advised Fund, you are eligible for a tax deduction for the current year, just as you would by donating to another charity. Then you could donate to charitable organizations in future year(s) on a scheduled or unscheduled basis. (Check with Sponsoring Broker if there is a mandatory timeframe to exhaust the initial funding of the DAF.)

### 3. Grow your donation, tax-free

While you're deciding which charities to support, your donation can potentially grow, making available even more money for charities. Most sponsoring organizations have a variety of options from which an investment strategy can be developed inside the DAF. However, as any investment, your donation can also decline in value depending on the investment options you choose.

### 4. Support charities you love, now or over time

You can support St Theresa Church, the School, Archdiocese or other qualified charities with grant recommendations from the donor-advised fund over a period of time. Remember that the initial donation was deducted in the year that you contributed to the DAF, hence periodic charitable donations from the DAF over time will not be deductible. For church and school grants, the Federal tax id number is 36-2171140.

The Sponsoring Organization who administers your account will conduct due diligence to ensure the funds granted go to an IRS-qualified public charity and will be used for charitable purposes.

## What are the benefits of a donor-advised fund?

### 1. Easily contribute a wide range of assets

Giving non-cash assets is often more efficient than giving via cash or credit cards, but it is difficult for many charities to accept these donations. Contributing assets other than cash is simple with a donor-advised fund. In some cases, it is possible to transfer stock directly from your brokerage account with the click of a button.

Assets generally accepted include:

- **Cash**, such as checks, wire transfers or cash positions from a brokerage account
- **Traded Securities or mutual fund shares** (especially those that have appreciated)
- **Restricted stock**
- **Bitcoin and other cryptocurrencies**
- **Private equity and hedge fund interests**
- Certain **complex assets**, such as privately held C-Corp and S-Corp shares

### 2. Maximize potential tax benefits

Again, the donation is eligible for an immediate tax deduction, just as you would by donating to another qualified charity. But some donations could make you eligible for additional benefits.

#### *Cash donations*

If you donate cash, via check or wire transfer, you're generally eligible for an income tax deduction of up to 60 percent of your adjusted gross income.

#### *Donations of long-term appreciated assets*

Donating long-term appreciated securities directly to the DAF—instead of liquidating the asset that will generate capital gains—can help maximize both your tax benefit and the overall amount you have to grant to charity. These donations provide two tax benefits:

- Become eligible for an income tax deduction of the full fair-market value of the asset, up to 30 percent of your adjusted gross income.
- Eliminate capital gains tax on long-term appreciated assets, as long as they've been held for more than a year.

### 3. Invest your donation for tax-free growth

Once you have funded your donor-advised fund, you may recommend an investment strategy for your account—potentially growing your account and providing you with more dollars to grant to charity. Many sponsoring organizations also have programs allowing you to nominate your financial advisor to manage the investment of your charitable funds.

#### **4. Simplify recordkeeping and organization**

With a donor-advised fund, you don't have to keep track of every gift acknowledgment from every charity you support—just the receipts from your donor-advised fund contributions. When you're ready to support your favorite charity, you can simply log in to your account and recommend a grant to any IRS-qualified public charity.

#### **5. Support your legacy planning**

You can incorporate your donor-advised fund into estate planning by making a bequest in your will to the donor-advised fund sponsor or by making the sponsor a beneficiary of a retirement plan, life insurance policy or charitable trust. By leaving instructions with the donor-advised fund sponsor, you can support multiple charities with one bequest. These gifts can also help reduce or eliminate the burden of estate tax for your heirs.

## **How can I use my donor-advised fund to support charities?**

### **1. With a donor-advised fund, you generally CAN:**

- Support IRS-qualified public charities with grant recommendations from the donor-advised fund.
- Choose whether to recommend anonymous grants to charity or to provide grant acknowledgment contact information with their grant recommendations. While donors choose to provide their names and addresses, donor-advised funds offer the option for anonymous granting for those who wish to recommend grants privately.
- Specify a specific use, campaign or purpose for your grant recommendation. When contributing to St Theresa, we encourage you to specify where the funding should be applied such as Weekly, Easter, Christmas contribution, Annual Catholic Appeal St Theresa Tuition Assistance, etc. Similarly, you may make grant recommendations “in honor of” or “in memory of” a loved one.

### **2. With a donor-advised fund, you generally CANNOT:**

- Support organizations other than IRS-qualified, 501(c)(3) organizations, such as political groups or crowdfunding campaigns. Private foundations are also ineligible to receive donor-advised fund grants.
- Recommend grants that may provide a personal benefit—such as school tuition for a grandchild or tickets to a charity event that you will attend. Because you would receive something of personal value from these grants, they are not eligible, just like they would not be eligible for a tax deduction. Donor-advised fund dollars are to be strictly used for charitable purposes.

## Example of tax affected DAF:

Assume you desire to give \$1,000 per month to charities and you fund a newly formed DAF in November, 2022 with \$24,000. Here is a very simple example of either donating \$1,000 per month for 2 years or establishing a DAF in 2022 and disbursing \$1,000 over the next 24 months.\*

	Without DAF	With DAF	Without 2022 DAF	With the 2022 DAF
Tax Year	2022	2022	2023	2023
Example Income:	\$100,000	\$100,000	\$100,000	\$100,000
Itemize or standard deduction:				
Income /RE taxes	-10,000	-10,000	-10,000	-10,000
\$1k/mo Charitable	-2,000	<b>-24,000</b>	-12,000	-0-
Standard Deduction	<b>\$ 25,950</b>		<b>\$ 27,700</b>	<b>\$ 27,700</b>
Itemized Deduction	<b>N/A</b>	<b>\$ 34,000</b>	<b>N/A</b>	<b>N/A</b>

\*For illustration purposes only. Please contact your tax adviser for specific aspects of your tax situation.

## How is a donor-advised fund different from a private foundation?

Private foundations and donor-advised funds are both charitable giving vehicles that help donors facilitate their giving and achieve their philanthropic goals. Unlike donor-advised funds, private foundations are separate legal entities, generally established by an individual, family or corporation. Private foundations are subject to more stringent tax laws and regulations than public charities and are responsible for their own tax filing and recordkeeping. Benefits of a private foundation include greater administrative control over assets and grantmaking, including the ability to make grants to organizations other than IRS-qualified, 501(c)(3) public charities. With different structures, rules and features, donor-advised funds and private foundations each come with a unique set of advantages and limitations.

**TIP:** Though a donor-advised fund is not a foundation or a trust, many donors choose to grant from their donor-advised fund as they would from a family or private foundation. Because of this, some elect to use this language in naming their donor-advised fund.

Examples: The Frank Smith Giving Foundation, The Francis Williams Missions Trust

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