Coastal Community Foundation

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DONOR-ADVISED FUND

Given the provisions of the Tax Cuts and Jobs Act of 2017, many charitably-inclined taxpayers may need to alter their charitable giving strategy to receive a tax benefit. For 2020, the standard deduction is $24,800 per couple plus an additional $1,300 per person (or $1,650 for unmarried taxpayers) for those age 65 and over. For those who itemize deductions, the deduction for state and property taxes is now limited to a combined $10,000. If taxpayers do not have significant mortgage interest or medical expenses to deduct, they may be forced to utilize the standard deduction, potentially reducing or eliminating the tax benefit of charitable donations. One charitable giving strategy that may allow a donor to receive a tax deduction is "bunching" charitable gifts in a tax year where the donor can exceed the new standard deduction.

A great way to implement a charitable "bunching" strategy is by funding a Donor-Advised Fund (DAF). DAFs are simple to establish, and the minimum opening balance is relatively low (e.g., $5,000 at Schwab). By utilizing a DAF and making a sufficient contribution, the donor can take a charitable deduction in the year the contribution is made, and subsequently direct smaller gifts to charities over time.

ADVANTAGES OF A DONOR-ADVISED FUND

- Realize tax benefits in the year the charitable donation is made.
- Contribute appreciated securities to avoid paying capital gains taxes upon sale.
- Assets in a DAF can be invested and grow tax-free.
- Donor has control over timing of when grants are made (and can be done with anonymity, if desired).
- A DAF could be established as a conduit to gift appreciated securities to small charities that do not have the ability to receive "in-kind" donations of securities.

(Example on back)

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EXAMPLE

For the last several years, John and Mary have been giving $10,000 each year to their favorite charity. This year, John and Mary are expecting a significant increase in taxable income and would like to reduce their income taxes. Mary has been an executive at a large public company for over a decade and owns a significant amount of company stock. The stock has appreciated over the years and the cost basis is low. John and Mary would like to continue giving $10,000 per year for at least the next five years. Mary would like to reduce her company stock position as it has become a large portion of their overall portfolio.

Instead of gifting $10,000 in cash this year (as they have done in prior years), John and Mary establish a Donor-Advised Fund and gift $50,000 worth of Mary's company stock, which has a cost basis of $20,000. By gifting the appreciated stock this year, John and Mary have "bunched" five years of charitable contributions and surpassed the standard deduction, allowing them to deduct the fair market value of the stock ($50,000) in the current tax year. In addition, they avoided paying capital gains tax on the $30,000 of unrealized gains in the stock. John and Mary can now distribute $10,000 per year from their new DAF or invest the money in the fund to be used for future giving.

IMPORTANT CONSIDERATIONS FOR A DONOR-ADVISED FUND:

- Donors cannot receive personal benefit from a grant to a charity (i.e., cannot use a grant to purchase an auction item at a charity's annual gala) and cannot use grants to satisfy legally-binding pledges.
- Grants are directed by the donor and permissible to U.S. 501(c)(3) public charities or their equivalent.
- Careful coordination with a tax professional prior to making a gift is prudent, as contributions to a DAF may not always result in a tax deduction.
- Contributions to a DAF are irrevocable and cannot be returned to the donor(s).

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