CEDAR ROWE
PARTNERS

Why you might want to consider a Donor-Advised Fund?

Donor-advised funds are the fastest-growing charitable giving vehicle in the United States because they are one of the easiest and most tax-advantageous ways to give to charity. A donor-advised fund, or DAF, is a philanthropic vehicle established at a public charity. It allows donors to make a charitable contribution, receive an immediate tax benefit and then recommend grants from the DAF over time. In many instances, it is much easier to support your chosen charities through a donor-advised fund and simply keep track of one tax receipt.

Cash may not be the best way to give to charity

Instead of simply writing checks to charity it may make more sense to look at your portfolio with an eye toward donating long-term appreciated securities (stocks, mutual funds, bonds), real estate, private company stock (S-corp or C-corp) and other potential investments. Fidelity Charitable, which Cedar Rowe actively works with, is particularly adept at handling non-publicly traded securities in this area.

It is worth noting that capital gains taxes are generally eliminated when you contribute long-term appreciated assets directly to a charity, instead of selling the assets yourself and donating the after-tax proceeds. When you assume 20% for federal long-term capital gains taxes, plus a 3.8% Medicare surtax, this leads to a potential increase of 23.8% of both your tax deduction and your charitable contribution.

Donate Stock		Donate Cash
$20,000	Value of stock when purchased	$20,000
$50,000	Current price	$50,000
$30,000	Taxable capital gains	$30,000
$0	Capital gains and Medicare surtax paid* (23.8%)	$7,140
$50,000	Total contributions to charity (after deducting capital gains surtax)	$42,860
$19,800	Tax liability without charitable contribution	$16,973
$19,800	Income tax savings by making contribution	$9,833

This is a hypothetical example for illustrative purposes only. This chart assumes the donor is in the 39.6% federal income bracket with an adjusted gross income (AGI) of $500,000. State and local taxes, the federal alternative minimum tax and limitations to itemized deductions applicable to taxpayers in higher-income brackets are not taken into account. Please consult your tax advisor regarding your specific legal and tax situation. Information herein is not legal or tax advice.

Your tax deduction depends on the type of donation

- Cash donation - If you donate cash, via check or wire transfer, you are generally eligible for an income tax deduction of up to 50% of your adjusted gross income (AGI). Should there be any charitable contribution deduction more than 50% of your AGI then it may be carried forward for up to five years.

- Long-term appreciated assets - Donating long-term appreciated securities potentially allows you to maximize capital gains tax advantages, since capital gains are typically avoided, and you can take an income tax deduction in the amount of the full fair-market value, up to 30% of your AGI. Should there be any charitable contribution deduction more than 30% of your AGI then it may be carried forward for up to five years.

If your income is particularly high this year, perhaps as the result of a bonus, or you've sold investments that have done well, or otherwise, DAFs can be an attractive vehicle to fund your charitable giving. Funding the DAF allows you to lock-in the needed charitable deduction in the high-income tax year and thereafter you have as much time as you would like to have the funds distributed to the charitable charities of your choice.

Consider Pre-Funding your Charitable Deduction in 2017

If you believe that your tax bracket is higher this year than it will be next year you may want to consider frontloading your charitable giving. Please note that President Donald Trump's recently proposed tax-cutting plan aims to eliminate all "loopholes," except the mortgage interest and charitable giving deductions, according to Treasury Secretary Steven Mnuchin.

DAF and Legacy Planning

Many clients that we have worked with over the years have named specific charities in their estate planning documents. The problem often encountered is that any changes or additions concerning charitable entities requires additional amendments or codicils to the client's estate planning documents. Instead, consider having your donor-advised fund serve as a beneficiary of your estate. Now you no longer need to change the charitable beneficiaries or amounts bequeathed in your estate planning documents. Simply, you can leave a specific dollar amount or specific percentage of your estate to the donor-advised fund, and modify the beneficiaries of your DAF, rather than repeatedly amending your estate planning documents.

While donor-advised funds are not the only charitable tool to consider, they are generally the easiest strategy to implement. Please contact us directly to discuss setting up a donor-advised fund or other planning strategies that you are contemplating.