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TO: OUR CLIENTS AND FRIENDS

FROM: JACKSON M. PAYNE

DATE: MAY 15, 2023

RE: FINANCIAL STRATEGIES FOR YOUR LIVES AND BUSINESSES

DONOR-ADVISED FUNDS

These tax-advantaged charitable accounts offer simplicity and flexibility. Donor-advised funds ("DAFs") have been the fastest-growing charitable vehicles in recent years, but many of their advantages are still underused and underappreciated.

With these charitable accounts, you can make a big contribution, take a deduction for the full value of the contribution, invest the assets, and take time to decide how to distribute the gifts to charitable organizations in future years.

Some of the largest DAFs have contribution requirements, but they aren't stringent: Fidelity Charitable requires donors to gift at least once every two years; Vanguard Charitable requires at least a $500 gift be gifted every three years.

The sweet upfront tax deduction and simplicity—the fund takes care of administration and record-keeping—have fueled massive interest. And there are more reasons to like DAFs.

The original interest has been as convenient pass-throughs to charity that help people track all of their gifts from one place. But there are a lot more tax and estate-planning reasons high-net-worth individuals and families are starting to use DAFs.

Higher Deductions, More Privacy

Consider the tax advantages of DAFs compared with private family foundations, which are the traditional charitable vehicle used by high-net-worth families. Tax deductions for cash gifts to DAFs are capped at 60% of adjusted gross income under tax law. For foundations, the deduction is capped at 30%.

For investors who give appreciated stock to their DAF, the value of a deduction is capped at 30% of adjusted gross income with DAFs and 20% with foundations. What's more, DAFs have privacy benefits: The recipients and size of your gifts from a DAF remain private, while gifts from a private foundation are public record.

Contribute Illiquid Assets with Ease

Wealthy donors can minimize taxes and leave more to charity by donating illiquid assets to a DAF, rather than selling the assets, paying the capital-gains taxes and donating the after-tax proceeds.

Not all DAFs have the expertise, however, to accept complex assets, which must go through a vetting process to ensure they can be liquidated within weeks or months and there are no legal issues.

Add an Environmental, Social and Governance (an ESG) or Impact Component

Many DAFs have been adding ESG investment options, and several DAFs with impact missions have cropped up, enabling donors to invest underlying assets for impact until they are eventually distributed to charities. For example, investments may be made to companies or nonprofits that finance sustainable infrastructure, or that connects surplus food sources with communities in need.