YOUR GUIDE TO
DONOR-ADVISED FUNDS (DAF)

Consider using a Donor-Advised Fund to simplify your charitable giving with the possibility of gaining tax advantages. This type of account can be a strategic tool for you and your family to support your favorite charities. This detailed guide explains what you need to know about a DAF and if it is right for your unique situation.

TAX PLANNING

Make the most out of your donations to charity.

GWISDOM GLASSMAN WEALTH SERVICES

A COMPELLING TAX AND ESTATE PLANNING STRATEGY: The Donor-Advised Fund (DAF)

Why Consider a Donor-Advised Fund?

- Simplifies recordkeeping, as contributions to the DAF are counted as one gift, no matter how many subsequent donations are made.
- Offers an opportunity to rebalance a portfolio without having to sell securities that would realize large capital gains.
- Offers an opportunity to maximize tax deductions (especially for those who now take the standard deduction instead of itemizing).
- Provides a potential legacy for future generations. Naming children as successors of a DAF enables them to continue charitable funding decisions after the donor's death.
- Naming a DAF as a beneficiary in estate documents or an IRA can simplify estate planning, with the flexibility to change charitable beneficiaries without expensive legal fees.

How Does a DAF Work?

1. You donate assets (ideally, highly appreciated securities) into a donor-advised fund.
2. With some restrictions, you can take a tax deduction in the same year you make your contribution to the DAF.
3. Upon receipt of the funds into the DAF, the securities are sold and diversified.
4. The proceeds are then available for you to make as many distributions to charitable organizations as you would like.

LET'S LOOK AT THE SMITHS:

Assumptions: Both Age 55 | Earn combined income of $400,000 | Paid off mortgage | No large medical expenses
Pay $10,000 in real estate taxes, $23,000 in state income taxes, and give $10,000 to charity

Before a DAF:

Current law limits the state & local income tax (SALT) deduction to $10,000, so donating $10,000 to charity results in total itemized deductions of $20,000.

That's less than the $29,200 standard deduction, so the Smiths will take the standard deduction instead. The gift does not result in a $10,000 charitable deduction.

Real Estate Taxes		10,000
State Income Taxes	+	23,000
Total State and Local Taxes (SALT)		**33,000**
SALT Deductions limited under current tax law to:		10,000
Charitable Contributions	+	10,000
Total Itemized Deductions		**$20,000**
Available Standard Deduction		**$29,200**

After a DAF:

Let's say instead that the Smiths now decide to open a DAF and "bunch" five years of contributions ($50,000), using highly appreciated securities.

Real Estate Taxes		10,000
State Income Taxes	+	23,000
Total State and Local Taxes (SALT)		**33,000**
SALT Deductions limited under current tax law to:		10,000
Charitable Contributions	+	50,000
Total Itemized Deductions		**$60,000**

In this scenario, the Smiths avoided paying taxes on the capital gains from their donated securities and received a $50,000 charitable deduction. By using the DAF, the Smiths will have $60,000 in itemized deductions, including their $10,000 in SALT. They can distribute five annual $10,000 donations from the DAF and can repeat this funding strategy in year six.

Who is a Good Candidate for a DAF?

Criteria include an individual or family who...

- Regularly gives to charity
- Has appreciated securities they would likely otherwise sell
- Wants assets go to charity upon their passing
- Supports many charities but is frustrated by keeping tabs on how much they give to each organization

What kind of organizations can I donate to?

Most nonprofit organizations that are granted tax-exempt status by the IRS and are eligible to receive tax-deductible charitable contributions can receive distributions from a DAF

Why Now?

Under current tax law, the deduction for state and local taxes is capped at $10,000, and the standard deduction is $29,200 for a married couple (higher if age 65 or blind).

Given these rules, most taxpayers take the standard deduction instead of itemizing deductions. As a result, many fail to reap the full tax benefits of giving to charity. For those with an appreciated stock portfolio, now may be the best time to consider a Donor-Advised Fund.

HOW CAN GLASSMAN WEALTH SERVICES HELP YOU?

Glassman Wealth Services works with our clients and their CPAs to determine if a DAF is appropriate for a particular situation.

What's the Best Way to Fund a DAF?

You can always donate cash, but usually the most tax-advantageous way is to donate appreciated securities that have been held for over one year. Most DAFs will accept a wide range of securities, like stocks, bonds, mutual funds, or even some private investments.

Depending on how much you normally donate, you can fund your DAF once a year or use a strategy called "bunching" where you fund your DAF with several years' worth of charitable donations. This takes advantage of the potential tax benefit of itemizing deductions.

DIVING DEEPER INTO TAX SAVVY STRATEGIES

When does age make a difference?

In addition to a DAF, one strategy to consider is a "Qualified Charitable Distribution" (QCD). If you are over 70.5 years old and have an Individual Retirement Account (IRA), this tax strategy allows you to donate up to $105,000 per year (adjusted for inflation), per individual to qualified charities directly from your IRA. In doing so, distributions that would otherwise be taxable income to you are sent tax-free to charity. QCDs can also help satisfy annual Required Minimum Distributions (RMDs).

High-income tax year?

Do you like to donate to charity and are in an unusually high-income tax year (or will you have an upcoming low-income tax year)? Front loading or bunching contributions into your DAF may be a good way to take advantage of high-income years as a way to lower your tax burden at a higher tax rate.

Still want to own the stock you are donating?

When considering what to contribute to a DAF, you will generally want to use highly appreciated securities held longer than one year. While it can be tempting to donate underperforming securities and hold onto ones that have done well, keep in mind that you can always continue owning the security you've donated by repurchasing it with cash and thus, resetting your cost basis.

Looking for ways to maximize what goes to a charity?

Although it serves a unique purpose, a DAF is an investment account. Money within the DAF can be invested in funds of your choosing and allocated to be more conservative or aggressive. If you are looking for ways to maximize what goes to charity over time, there is opportunity for the DAF to grow based on the type of investments in the account. But this strategy is subject to market risks, so while there is an opportunity for your investments to go up, the DAF investments could also fall.

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GWISDOM

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- LIVING WELL IN RETIREMENT
- SMART INVESTING
- ESTATE PLANNING
- MANAGING LIFE'S RISKS
- NEXT GENERATION

About Glassman Wealth Services

"That's refreshing…"

"Refreshing" isn't a word many people associate with a wealth-services firm, but it's how our clients describe us. Because we approach things differently. Because we're not afraid to be candid. Because we manage over $2 billion* in assets, yet remain a resolutely boutique firm offering personalized service. And because despite the significant industry recognition we've achieved**, we still care more about the reputation we've earned with our clients.

**As of 02/29/2024*

***See disclosures at: https://www.glassmanwealth.com/important-disclosure-information/*

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