

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.

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 optimize tax deductions as new 2026 tax rules reduce the itemized deduction for charitable gifts.
- 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 | Adjusted Gross Income (AGI) of \$300,000 | No mortgage | No large medical expenses | Pay \$10,000 in real estate taxes, \$17,000 in state income taxes, and give \$15,000 to charity

Before a DAF:

Donating \$15,000 to charity results in total itemized deductions of \$40,500.

That's only \$8,300 more than the standard deduction, even though they gave \$15,000 to charity. In effect, the first \$6,700 of gifts had no tax benefit.

If they do the same thing for 5 years, their deductions total \$202,500.

Annual State and Local Taxes (SALT)		\$27,000
Annual Charitable Contributions	+	\$15,000
<i>Deduction Reduced by 0.5% of Adjusted Gross Income</i>	-	<u>\$1,500</u>
Annual Itemized Deductions (Years 1-5)		\$40,500
Available Standard Deduction		\$32,200
Total Deductions Over 5 Years	=	\$202,500

After a DAF:

Let's say instead that the Smiths now decide to open a DAF and contribute five years' worth of their gifts (\$75,000) upfront. Instead of contributing cash, they donate appreciated securities.

Annual State and Local Taxes (SALT)		\$27,000
DAF Contribution (Year 1)	+	\$75,000
<i>Deduction Reduced by 0.5% of Adjusted Gross Income</i>	-	<u>\$1,500</u>
Total Itemized Deductions (Year 1)		\$100,500
Available Standard Deduction (Years 2-5)		\$32,200
Total Deductions Over 5 Years		\$229,300

In this scenario, the Smiths avoided paying taxes on the capital gains from their donated securities, they received a \$73,500 charitable deduction, and they plan to distribute grants from their DAF to charity over five years.

They will have \$100,500 in itemized deductions in year one, then take the standard deduction in years two through five, resulting in \$26,800 more in total deductions over the years.

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?

Given current tax rules, most taxpayers take the standard deduction instead of itemizing. As a result, many fail to reap the full tax benefits of giving to charity.

New 2026 tax rules include a reduction of 0.5% of Adjusted Gross Income (AGI) for the deduction and further limits for high-income taxpayers. Thoughtfully strategizing for charitable gifts can optimize tax deductions over multiple years.

HOW CAN GLASSMAN WEALTH SERVICES HELP?

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 to a DAF, 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 \$111,000 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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- LIVING WELL IN RETIREMENT
- SMART INVESTING
- ESTATE PLANNING
- MANAGING LIFE'S RISKS
- NEXT GENERATION

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*As of 02/29/2024

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