



LANDMARK

WEALTH MANAGEMENT

A **Donor-Advised Fund** is a popular, flexible, and tax-efficient way to contribute to your favorite charities. A donor-advised fund, or DAF, is a charitable-giving vehicle designed to provide the donor with a tax-deduction for making an irrevocable contribution of assets earmarked for charities. Once the contribution is made, a sponsoring organization manages the account, while the donor recommends how to invest the assets and where to donate them. DAFs are a sensible tool, especially during years in which an individual has had a high-income year, as the tax benefits would be advantageous.

How it works:



Make a tax-deductible contribution

- Donors will receive a tax deduction of the fair market value from the assets contributed for the tax year the contribution was granted.
 - i. Cash, stocks, bonds, mutual funds, and other assets are all eligible assets that can be contributed to a donor-advised fund.
 - ii. A contribution to a donor-advised fund is an irrevocable commitment. The funds are earmarked to be granted to charities and cannot be returned to the donor or any other individual.



Grow your donation, tax-free

- The funds in the donor-advised fund can be invested by a sponsoring organization, such as Fidelity Charitable, Vanguard Charitable, etc. As a result, your donation can potentially appreciate tax-free until the donor is ready to donate to their recommended charity.
 - i. There is no mandatory distribution date, meaning the funds may stay in the donor-advised fund for days, months, even years before the donor chooses to complete the donation to charity. The longer the time frame, the better chance of tax-free growth in the donor-advised fund, making more funds available to donate to charities.



Support the charities you love, now or later

- The donor has the privilege to recommend which charity (or charities) they would like to donate to.
 - i. The donor will receive one receipt for tax purposes, while having the ability to recommend multiple charities as donation recipients.
- DAFs are flexible, as the donor can make changes to the recommended charities and/or the allocated amount of the donation at any time.



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Benefits:

- **Tax Strategy**

- ◇ The year the contribution to the DAF is completed is the same year that the donor can claim the tax deduction. Therefore, it would be beneficial to contribute to the donor-advised fund in a year of itemizing deductions, versus taking the standard deduction.
 - ◆ For example, if a donor typically donates \$2,500 a month to charity (\$30,000 a year), they could prepay for, say, five years' worth of donations by putting \$150,000 in a donor-advised fund now.
 - ◆ The donor-advised fund could then disburse \$2,500 per month to the charity as usual. However, the donor will receive a \$150,000 tax deduction this year, instead of a \$30,000 deduction every year for the next five years. Receiving a larger lump sum deduction in one year could be more tax efficient than smaller \$30,000 annual deductions, especially during higher income years.

- **Lower Capital Gain Taxes**

- ◇ Donors will not have to pay capital gain taxes on the unrealized gain of the contributed assets. The donor receives a tax deduction for the fair market value from the appreciated asset. The most tax-efficient strategy is to contribute highly appreciated assets to maximize the deduction, while avoiding capital gains taxes.

- **Reduced Estate Tax**

- ◇ Assets contributed to a Donor Advised Fund are **not** subject to estate taxes.
- ◇ The current federal estate tax exemption amount is \$12.06 million for 2022.

- **Legacy of Giving**

- ◇ In the event of death, the deceased may make a bequest in their Will to allocate the remaining assets in the Donor Advised Fund to the charities of their choice.
- ◇ Another option for the deceased is to pass control of the Donor Advised Fund to a successor, who then may choose to pass the funds to the charities of their choice.

Donor-Advised Funds can be a powerful tool in tax planning, charitable giving, and estate planning. Please see your Landmark Wealth Management adviser with any questions or to learn more information.