Why Advisors Recommend Donor-Advised Funds during Year-End Planning

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BY KEN NOPAR

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The appeal and use of donor-advised funds continue to grow among advisors and their clients.

The *Chronicle of Philanthropy*'s **annual ranking** of the 400 charities that received the most contributions recently indicated that five of the top 11 were donor-advised fund sponsors. One of the articles in the *Chronicle* estimated that 10 percent of all donations in the near future would go to DAFs.

Though advisors and their clients establish and contribute to their donor-advised fund accounts throughout the year, the busiest time when this occurs is in November and December because:

1. Tradition. Many donors make their charitable donations at year-end.

2. Meetings. Advisors and clients often discuss year-end tax planning and, in recent years, advisors have become more likely to recommend DAFs to their clients.

3. Simplicity. Donor-advised funds are easy and quick to establish, and clients quickly comprehend their many advantages.

4. Requests. Many charities appeal to donors for year-end donations.

5. Generosity and holiday spirit. Donors, including business owners and those who earn bonuses or commissions, know their expected total income. They gather with family and are sensitive to stories about people in need and wish to share their good fortune.

Clients are increasingly aware of donor-advised funds. There are approximately 250,000 donor-advised fund accounts in the country, an increase of about 100,000 in the past eight years. There are now three times more DAFs than private foundations. Reports about the *Chronicle*'s recent rankings and stories about DAFs were featured on one day alone in media including NPR, Fox News, the *New Yorker* and the *Washington Post*.

There are numerous benefits to clients from talking with their tax, financial and legal advisors about charitable planning. These advisors can help clients donate efficiently and enable them to have a greater impact on the

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charities that are most important to them. Advisors also benefit for many reasons as these discussions help them deepen and expand client relationships and can enable wealth advisors to manage additional assets.

It is important to remember that only a small percentage of donors primarily give because of tax benefits, though nearly all donors are pleased to receive them. Advisors' guidance is almost always welcome to help more of their clients' charitable dollars go towards their favorite charities instead of to the government. This is true for both clients who have been longtime donors and those who are just embarking on their philanthropic journeys.

Many advisors recommend donor-advised funds to their clients, especially as year-end approaches, in the following situations:

1. Clients who have large incomes during the year or have sold (or will sell) an asset that will create a large capital gain. These clients could create a DAF or donate more to their already-established DAF to fund additional or future giving, especially if their income may drop in future years. Clients claim the charitable deduction at the time of their donation instead of in the future when the grants are made to the charities from their DAF accounts.

2. Clients may want to donate land, real estate, insurance, privately held stock or publicly traded securities that are not easily divided and given to a number of charities. Also, many charities are incapable of accepting these assets. Some DAF sponsors can accept and sell them, creating liquidity that the donors can then donate to the charities of their choice.

3. Clients have a large asset to donate, but want to provide funding to a particular charity over time. Donating the asset to a DAF enables them to make smaller grants to the charity throughout a number of years so they can monitor the work of the charity.

4. Clients are poorly organized, lose their donation receipt letters from different nonprofits, and unintentionally duplicate contributions to the same charity. DAF sponsors provide donors with one tax receipt letter for all donations during a year and enable them to make grants and view past grants online.

5. Clients want to give anonymously to an organization, which they may do from a DAF.

6. Clients establish a DAF to complement their private foundation. In addition to privacy concerns with a foundation, they do so because they want to: a) give to a cause or charity outside of their foundation's mission, b) receive more significant tax benefits from donating to a DAF, or c) make the required 5 percent distribution from their private foundation to their DAF account for various reasons.

Mark Miller, a partner with Sikich LLP, adds that since "the charitable deduction limits for donating long term appreciated capital gains property to a PF is 20 percent of AGI compared to 30 percent to a DAF, individuals could make donations up to 20 percent of AGI to their PF and an additional 10 percent to the DAF to maximize the donation amount." Others simply donate that entire asset to a DAF.

7. Advisors and their clients who are 70 ½ or older frequently review Required Minimum Distributions from their IRAs near the end of the year. Greg Singer, head of the Client Solutions Group at Capital Group Private Client Services, writes, "At the end of 2015, Congress made permanent the option to gift up to $100,000 from a client's IRA directly to a charity(ies), but not to a DAF. The benefit of a direct gift is that it can keep AGI lower and thus reduce the phaseout of a number of deductions as well as reducing income that could become subject to the Medicare investment tax." Currently, bipartisan legislation has been introduced in the Senate and the House that would enable these donors to make grants from their IRA directly to DAFs.

8. Clients are sometimes overwhelmed and frustrated by the work and responsibility of managing their private foundations or with the cost and effort of establishing one. Dawn Jinsky, a partner with Plante Moran Wealth Management, states, "Although the majority of my clients who come to me and want a charitable vehicle think that they want a private foundation, once they understand that they can accomplish their goals and objectives with a donor-advised fund and at a significantly reduced cost, it becomes very apparent to them that a DAF is the best choice."

9. For families that discuss over the holidays how to create a charitable legacy or how they can remain close and connected in the future, establishing a DAF is a quick and easy way to accomplish both goals.

10. By talking with clients earlier in the year and determining their charitable giving plans, advisors can preempt their client's call at the end of December to transfer stock to many different charities. In establishing a donor-advised fund, advisors can save themselves much time and effort by donating stock to just one donor-advised fund from which their clients (or the advisors with donor approval) can easily go online and make grants to numerous charities.

Wealth advisors are now able to manage the assets in their clients' donor-advised funds at some DAF sponsors, so they as well as CPAs and attorneys often consider this when recommending particular DAFs to clients. This enables advisors to manage their clients' charitable assets in a consistent manner as their other investments. American Endowment Foundation allows this at all levels, Fidelity and Schwab at a $250,000 minimum, some community foundations or single-issue charity DAF sponsors at varying amounts, while other DAF sponsors do not permit this or allow only limited investment options.

While many charities would prefer that donations be provided directly to them, others have realized that receiving grants from donors through their DAF accounts can be preferable as these grants are often larger than cash donations. Because grants from DAF sponsors typically arrive by check, the charities do not incur any costs in receiving them, unlike costs (and effort) they incur when processing and receiving donations of illiquid assets, credit card payments and stock donations.

Finally, it is important for advisors to not just establish a donor-advised fund for their clients, but to discuss what the next steps should be, especially for those clients who may have had or will have a liquidity event and who may just be starting on their philanthropic journey. This conversation should at a minimum help to determine who will be involved, the timeframe for giving, and how much should be given annually or over time. Other allied philanthropic advisors can be brought into the conversation should additional help be needed. In the end, this conversation will enable clients to have a greater feeling of accomplishment and satisfaction knowing they are having a true impact on the issues of greatest concern to them.

Ken Nopar is a senior philanthropic advisor for the ***American Endowment Foundation****donor-advised fund. Founded in 1993, AEF is one of the country's fastest-growing and leading independent DAF sponsors, working with donors and their tax, wealth and legal advisors in all 50 states.*