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Blog

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Part 3: What is a Donor Advised Fund

“The greatest use of a life is to spend it on something that will outlast it.” - William James, Philosopher

A Donor Advised Fund leaves a positive impact for your family to follow.

Through the years, Donor Advised Funds have become increasingly common in the philanthropic community for the good they can do today and the good that can continue for generations long after you have passed.

Many people know about Donor Advised Funds, the good they can do today, and that they create a tax benefit based on your adjusted gross income. However, you may wonder, beyond these buzzwords, how it works. So, let us unpack a Donor Advised Fund to see what is behind it and how it leaves a positive impact for your family to follow.

What is a Donor Advised Fund?

A Donor Advised Fund is a charitable account with the sole purpose of supporting charitable organizations that have won your passion. Designed to invest, grow, and make generous grants, it is a vehicle for meaningful, lasting impact regardless of your net worth. The fund is used similarly to a private family foundation, but a Donor Advised Fund requires less money, time, maintenance, and effort to establish and run.



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How a Donor Advised Fund Works

Working with your financial advisor, you open a Donor Advised Fund account. This account is a regular investment account, not much different from your other accounts with your financial advisor but with one added difference. A 501(c)(3) organization is associated with this account.

A 501(c)(3) organization is a designation the IRS gives once it qualifies as a charity. This designation enables you to save taxes based on your adjusted gross income when you place money into your fund.

It is essential to understand that the gift you make to your Donor Advised Fund is irrevocable, meaning the fund cannot return this money to you. Also, unlike a charitable vehicle like a Charitable Remainder Trust, you cannot receive any income from your Donor Advised Fund or any benefit other than the tax deduction.

The Types of Assets you can Donate to your Donor Advised Fund

You can donate a wide variety of assets to your Donor Advised Fund. Of course, you can donate cash from your checking, savings, or money market account.

However, the fund has an additional tax benefit if you donate highly appreciated assets to your Donor Advised Fund. When your Donor Advised Fund sells that asset, you eliminate the capital gains tax you would have paid had you sold it outside your fund. However, because of this tax benefit, the tax savings is a lower percentage of your adjusted gross income than when you donate cash.

The type of highly appreciated assets you can donate to your Donor Advised Fund include:

- ✓ Publicly traded securities like stocks and bond
- ✓ Mutual funds and Exchange Trade Funds (ETF)
- ✓ Restricted Stock
- ✓ Crypto currencies



- ✓ Real estate
- ✓ Collectables
- ✓ Private equities
- ✓ Hedge funds
- ✓ Privately held C-Corp and S-Corp Stock

Nontraditional assets are reviewed on a case-by-case basis.

Working with a financial advisor can help you decide which assets would benefit most when sold in your Donor Advised Fund based on your tax situation.

How Does a Donor Advised Fund's Tax Savings Work?

The IRS limits the tax savings of your gift made to a charity. Since your Donor Advised Fund is essentially a charity, it is subject to the same rules based on two factors; the type of asset you donated and your adjusted gross income.

When you donate cash, 100% of the donation is deductible, but the amount of deduction you can take in that year is subject to 60% of your adjusted gross income. In other words, if you placed \$70,000 in your Donor Advised Fund, 100% of that donation (\$70,000) is deductible.

However, if your adjusted gross income was \$100,000, only \$60,000 can be used ($\$100,000 \times 60\% = \$60,000$). The good news is that if you do not use all of your deductions in the year you contributed to your Donor Advised Fund, you have the next five years to use it.

As mentioned above, you eliminate the capital gains tax when you donate appreciated assets to your Donor Advised Fund. However, since you are receiving the capital gains benefit, your donation is still 100% deductible but the amount you can use is limited to 30% of your adjusted gross income. Again, if you do not use all of it, you have the next five years to use it.



Managing the Investments in your Donor Advised Fund

You and your financial advisor will decide the amount of risk you are willing to take with your account. Your financial advisor will actively manage your Donor Advised Fund's investments, based on your risk profile, using their expertise to help potentially guide your donations to a higher return. A better return could result in more money for the charities you support in the years ahead.

When you are ready to donate to a charity, you simply go to the Donor Advised Fund portal, select the charity you want to help, and the fund disburses your grant directly to the charity. You can make this donation in your name, or it can be an anonymous gift if you choose.

Your Donor Advised Fund empowers you and your family to decide what charities you want to support and when you want to contribute, which could be over many years. The fund handles all administrative details, and your financial advisor manages the investments, allowing you to focus on leaving a positive impact for your family to follow.

Impact Investing

Certain Donor Advised Funds allow international grants and impact investments. Impact investments are where you can lend money or invest in companies focused on generating positive social and environmental impact while earning a financial return

Generally, a social impact company or organization is an entity whose business model highlights doing work that explicitly attempts to solve a local or global community need. These needs can include projects like clean water, agriculture for poorer communities, or refugee work, to name a few.

When you make an impact investment, the financial returns go back into your Donor Advised Fund for future giving.

Leave a Positive Impact for Your Family to Follow

Sharing the experience of giving back to the community through a Donor Advised Fund with your children and grandchildren teaches them they can make positive changes in the world. They may develop a greater appreciation of what they have and how they can affect the world around them. It means you are leaving your positive impact for them to follow.

Equally as important, Family Giving creates a bond between children and grandchildren, creating shared goals and visions. It helps form a connection between their lives and their part in the world community. Learning the stories behind the organizations your charitable giving support can be inspirational for them.



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Creating a Lasting Legacy Through Your Donor Advised Fund

A Donor Advised Fund can continue for multiple generations through what is known as a successor donor. The donor names a successor donor, and when the donor passes away, the successor donor steps into the donor's shoes and assumes all giving responsibilities. Designating a successor donor allows you to name children or grandchildren as successor donors, extending your philanthropic legacy long after you are no longer here.

Establishing a Donor Advised Fund is fast and easy, and the future benefits of charitable giving together with your family may be immeasurable.

Next Up in the Charitable Giving Series

In the **fourth** installment of the Charitable Giving Series, we will examine a Charitable Remainder Trust giving you easy-to-understand factors involved in this giving strategy.



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All financial decisions and investments involve risk, including possible loss of principal.

Investors should carefully consider a fund's investment goals, risks, sales charges and expenses before investing. The prospectus contains this and other information. Please read the prospectus carefully before investing or sending money.

A donor advised fund is a separately identified account that is maintained and operated by a section 501(c)(3) organization, and is not a registered investment company.