DUNHAM

Part 5: Comparing the Use of a Charitable Remainder Trust, Donor Advised Fund,and a Private Family Foundation

Life's most persistent and urgent question is, "What are you doing for others?" - Martin Luther

In this five-part series on giving back to the community, we encouraged you to ask what you could do in your neighborhoods, community, and for the planet to make them better. We, in essence, posed the question, "What are you doing for others?" for
you to consider. The most potent force for change is what you decide to do today for others, especially for the most vulnerable.

In the four preceding articles, we examined what charitable giving could mean to you and your family, and then we explored three specific ways of giving back to your community:

- Private Family Foundation
- Donor Advised Fund
- Charitable Remainder Trust

In this final article of the series, we will compare these three methods of giving to provide guidance as to which might be suitable for you and your family.

While this article will assist in determining a course of action, please keep in mind that we have not covered everything. The rules are complex, and your outcome can vary based on your situation. Charitable giving is personal to your situation, and you should not seek a cookie-cutter approach.

Charitable Remainder Trust

Let us start with the Charitable Remainder Trust, which has one feature that the other two lack. It can provide economic benefits beyond the tax deduction and capital gain elimination at the point of sale.

It can provide income for your lifetime or a specific number of years. Please see important disclosures at the end of this article.

At Dunham Trust Company, we see many charitably inspired families whose financial situation does not lend itself to making large irrevocable gifts to a Donor Advised Fund or a Private Family Foundation. The primary reason is that they still depend on their assets for income or retirement.

When you still need to receive an economic benefit from the asset but want to earmark it for making the world a better place, this is where the Charitable Remainder Trust could be the correct solution. It provides income today but could be a meaningful charitable gift when you pass away.

When you combine a Donor Advised Fund with your Charitable Remainder Trust, you can create a legacy that can continue in perpetuity. To better understand this concept, please see this article Combining Two Powerful Gifting Strategies: The Charitable Remainder Trust and the Dunham Donor Advised Fund.

When to Choose a Donor Advised Funds vs. Private Family Foundations?

Donor Advised Funds and Private Family Foundations allow you to donate cash or assets today, receive an immediate tax deduction, and give it to the organizations you want to support over time.

I read articles stating that the most significant difference between and Donor Advised Fund and a Private Family Foundation is that a Donor Advised Fund is a simpler solution to implement, but it does not allow as much flexibility as a Private Family Foundation.

This view is valid for the most part, but it might be somewhat basic as there are many other factors to consider.

The Dunham Trust Company Charitable Giving Comparison Chart

Dunham Trust Company has created a chart comparing the three charitable vehicles highlighted in this series.

- Private Family Foundation
- Donor Advised Fund
- Charitable Remainder Trust

To download a printable copy of this chart, click here.

The comparison chart examines various factors to consider, including:

- Ease of establishing
- Start-up time
- Setup and administrative costs
- Minimum donations needed
- Estate considerations
- Economic benefits to the donor
- Legacy
- Minimum annual payouts
- Tax deduction allowed
- The amount of deduction allowed for the year you made the gift
- Income tax on the assets within the charitable vehicle
- Amount of IRS scrutiny
- Annual tax filings
- Annual record keeping
- Ability to give beyond 501 c 3 organizations
- Salaries and travel expenses paid by the charitable vehicle
- Privacy

Indeed, these are not the only consideration, but they can make it easier to embark on the right road for you and your family. They can prepare you for your discussion with a financial advisor, attorney, or CPA.

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One final thought. Using multiple Charitable Vehicles.

As we mentioned earlier, combining a Charitable Remainder Trust with a Donor Advised Fund could be a powerful combination if you which to leave a lasting legacy.

The same applies to a Private Family Foundation and a Donor Advised Fund, as they can also be used as complementary vehicles.

Privacy
As indicated on the comparison chart, donations made through a Private Family Foundation are a matter of public record, while a grant from is Donor Advised Fund can be anonymous. If you wish to make an anonymous donation to avoid public scrutiny or do not want to be solicited by similar organizations you are gifting to, the complementary nature of these two vehicles is simple. Your Private Family Foundation would grant to your Donor Advised Fund. You would then direct your Donor Advised Fund to make an anonymous contribution to the organization you want to help.

Fulfilling the 5% Expenditure Rule
In a year where you run the risk of falling short of the 5% expenditure rule for a Private Family Foundation, use a Donor Advised Fund to fulfill this requirement.

Creating What Could be Better Deductions
A Donor Advised Fund generally has better income tax deduction rules than a Private Family Foundation. As the Dunham Trust Company comparison chart indicates, working with your CPA to determine the better tax situation for your family in any tax year could make having both vehicles available an advantage.

Taking Advantage of the Tax-Free Nature of a Donor Advised Fund

A Donor Advised Fund allows earnings within the fund to grow tax-free, whereas a Private Family Foundation has an excise tax on the net investment income of 1.39%. While this tax is more of a nuisance, for significant assets earmarks for a few years in the future, moving them to a Donor Advised Fund can create an advantage.

Preparing the Future Leaders of a Private Family Foundation

Allowing the next generation to manage the Donor Advised Fund gives them hands-on experience that will be valuable when they later take their seat as the decision-makers for the family foundation.

Conclusion

When determining the best vehicle to give back to your community, you need to review your goals for the assets used and work with your advisor team to review the pros and cons of each charitable vehicle or their use in combination with each other.

Disclosures:

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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.