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The Four Main Advantages of Setting Up a Donor Advised Fund to Maximize Your Philanthropic Giving

Since their inception in 1931, donor advised funds have been the fastest growing charitable giving vehicle in the United States that most people never heard of. If you are not Bill Gates, it is much easier and more flexible to set up a donor advised fund than it is to set up a foundation. A donor advised fund is simply a charitable giving vehicle created with the express purpose of managing charitable donations. The main advantages are that they are low cost, easy to establish and administration is simplified as it is often handled by the sponsoring organization. Before I jump into outlining the four advantages a donor advised fund provides, I'd like to layout an example of how a donor advised fund might work for someone who is looking for new way to give.

The donor advised fund is simple and it solves a great deal of problems and frustrations of high net worth families who want to give back to the community but want to do it on their own terms. Have you ever had a phenomenal year where you made a great deal more money than you anticipated? In turn, you want to give back to the community but feel like you don't want to give all your money away in one year to get the full tax write off? Several of my clients faced this issue recently and the solution was a donor advised fund. It allowed my clients to take a significant tax write off in year one but distribute the proceeds from the fund over multiple years

to a charity(ies) of their choice. In the meantime, the highly appreciated stock that they contributed to the fund in year one continued to grow over time so effectively, they got to maximize their donation as the proceeds they distributed were greater than what they contributed! It is a very attractive vehicle if you have planned giving goals.

Advantage #1: A donor advised fund allows an investor to take a tax write off in year one but distribute the proceeds over many years. This advantage as outlined above is quite advantageous in more ways than one. Many of my clients are frustrated because they often get hit up very hard by the end of the year by charities seeking a contribution. This feature allows them to make more modest donations over time rather than one lump-sum contribution. It smoothes out the distribution and helps manage expectations of their appointed charities while simultaneously maximizing investor's current year tax write off.

Advantage #2: The donor advised fund is low cost and flexible - funds can be distributed to any public, domestic charity that is an IRS 501(C)(3) organization. The donor has the flexibility to give to many organizations, not just one. The donor has the ability to direct distributions as they see fit, to whom they see fit and most importantly when they see fit. This element of both flexibility and control is a key advantage of the donor advised fund. A donor advised fund can be set up with as little as \$5,000 and a multitude of investment options are available to help assets grow before they are distributed.

Advantage #3: The donor advised fund is very tax efficient because it allows a donor to contribute highly appreciated, publicly traded securities to the fund without selling them first. While contributing highly appreciated securities to the donor advised fund is exactly the same as contributing the shares directly to the charity itself, the flexibility is greater to the donor. This is because the charity sells the appreciated assets and capital gains are avoided.

Advantage #4: Assets in a donor advised fund can be professionally managed through an advisor like your other accounts. Just because you have set up a donor advised fund through a custodian like Schwab, it doesn't mean you give up the expert guidance of a financial adviser. Donor advised funds can be expertly managed like any other investment account. This gives the donor the peace of mind that the money they have selected for philanthropic purposes will also be professionally managed like their trust and retirement accounts.

All in all, the donor advised fund is an excellent way to help a philanthropically minded family to leverage their giving for the long haul. To schedule an appointment with me to discuss your philanthropic goals, please make sure to contact me before the end of the year to set up an account. It is easy to set up an account and it is important you do it before the end of the year to take advantage of the possible tax deduction.

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