

Tax & Charity Benefits of Donor-Advised Funds

Donor-advised funds are a tax-friendly and efficient way to provide support for charities. In addition to providing a tax benefit, they're also easy and inexpensive to establish. Individuals who establish them also have the benefit of increasing their future gifts through potential investment gains.

Most people wonder how these funds work after hearing about them. Donor-advised funds provide a way for an individual to claim immediate tax deductions after turning over assets to the funds. After this, any donated assets stay as investments until the individual or representative recommends grants to charities of choice that are qualified. These funds also have the potential to grow. Individuals are usually able to enjoy a full tax deduction for an irrevocable contribution. This is true even if a specific charity has not yet been named to receive the funds. Individuals who establish donor-advised funds also enjoy advisory privileges. These privileges include the ability to recommend grants to favored charities over time and the ability to recommend investments for individual charitable assets.

After understanding how these funds work, it's also important to better understand how they help save on taxes. The following are ways that these funds save on taxes:

- Giving tax-free appreciated securities to public charities. If an individual has mutual fund shares, stocks, bonds or other securities that have risen in value, they should consider putting them in donor-advised funds. When securities that are held more than one year are donated to a donor-advised fund without first selling them, their full market value can be deducted. If the amount is within the IRS guidelines of 30 percent of adjusted gross income, neither the charity or individual will realize a taxable gain.
- Reducing tax liabilities in the future by using flexible legacy options. Individuals are allowed to name donor-advised funds as secondary or primary IRA beneficiaries. Such gifts can save heirs from the burden of estate tax and income tax liabilities. They can also reduce an individual taxable estate and keep a giving legacy alive by giving to multiple charities for many years in the future.
- Helping to offset the conversion taxes of Roth. Individuals who have converted traditional IRAs to Roth IRAs or are considering do so should keep in mind that tax burdens are reduced by giving to a donor-advised fund. As a general rule, it's necessary to add the amount converted to taxable income. It's also necessary to pay regular tax rates on it. However, donating assets may help reduce taxable income and offset the conversion tax liability. There are also special conversion rules. Since these may change from one year to the next, discuss the current requirements and rules with an agent.

These funds certainly have plenty of advantages for those who plan to establish them. They are also a good way to leave behind something positive for charities of choice. To learn how to start one of these funds, discuss current options with an agent.