Market Gains? It's Time to Consider a Donor-Advised Fund for Giving

BY KANDICE K. BRIDGES

More than 80% of households that itemize deductions on their taxes give to charity, according to the IRS. As the year's end approaches, donors want to know how to tap portfolio gains and asset appreciation to support their giving in the most tax-efficient way. Donor-advised funds, or DAFs, may well be the answer.

A donor-advised fund is a charitable account sponsored by a public charity that donors use to support their philanthropy. Donors make an irrevocable contribution to the charity to establish the DAF and can take an immediate tax deduction. They can then make recommendations for distributing the funds to qualified charities on their own timetable, and can advise how the funds are invested. (Any growth is tax-free.)

The dual tax benefits can include a charitable deduction (50% of adjusted gross income for cash donations, 30% for appreciated assets) and the elimination of capital gains taxes. "DAFs can really simplify the giving process for donors, especially if you support multiple charities," says Karla Valas, managing director of the Complex Asset Group for Fidelity Charitable, an independent public charity. Fidelity Charitable sponsors the largest donor-advised fund program in the country.

One of the key advantages of DAFs is that many can accept long-term appreciated assets as well as cash. Donors often will get a greater deduction and have more to give to charity if they give the asset, rather than selling it and giving the after-tax cash proceeds. The assets Fidelity Charitable accepts include:

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>
> – **KARLA VALAS,**
> **MANAGING DIRECTOR, COMPLEX ASSET GROUP, FIDELITY CHARITABLE**

- **Publicly Traded Stocks and Mutual Funds**

Holders of publicly traded stocks and mutual funds have enjoyed an increase in value over the last several years. Donors can potentially eliminate capital gains when they donate shares that have been held for at least 12 months. This is also a great way for donors to rebalance their portfolios and reduce concentrated positions.

- **Closely Held Business Interests**

Because of growth in private businesses and other market factors, 2014 has seen a surge in mergers and acquisition activity. "Entrepreneurs and private equity investors have a veritable buffet of appreciated complex assets," says Valas. "The blood, sweat and tears they invested to build their company can be converted into infinite charitable giving power."

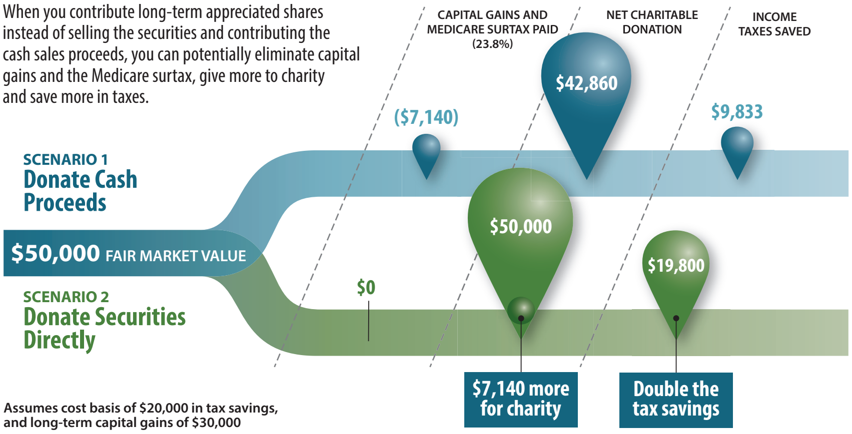
- **Real Estate**

Given rising values, Valas suggests that donors consider real property as an option. "We've accepted real estate, including oceanfront condos, vacation homes, farmland, timber rights and affordable housing credits," she says.

Valas advises donors to review their portfolios before making end-of-year donation decisions. "They should compare their appreciated asset portfolio—the publicly traded to their non-publicly traded," she explains, and donate the asset that can best help maximize the amount they can give while minimizing taxes. Fidelity Charitable can help with this analysis, making donor-advised funds a win-win for donors and charities alike. ■

For more information, visit:
fidelitycharitable.org

Benefits of Donating Appreciated Securities*



*In addition to assumptions noted in chart, this example assumes a married couple in the highest federal income tax bracket, filing jointly, and a fully deductible donation at fair market value to a qualified public charity. It does not take into account state or local taxes, the alternative minimum tax, or limitations on deductions for taxpayers in higher income brackets. The charitable deduction is only available at the federal level if you itemize deductions. Charitable contributions of capital gain property held for more than one year are usually deductible at fair market value. Deductions for capital gain property held for one year or less are usually limited to cost basis. This is a hypothetical example for illustrative purposes only. Results will vary depending on an individual's tax situation.

Source: Fidelity Charitable Giving Report