

June 7, 2004

Charitable Giving Options

Clients frequently ask how they can most effectively utilize their net worth to benefit charitable organizations. Many are already aware of private foundations, charitable trusts and community foundations. Not everyone, however, is familiar with another way to create a lasting philanthropic legacy: establishing a Donor-Advised Fund.

A Donor-Advised Fund (DAF) is a tax-exempt vehicle that gives individuals a flexible and cost-effective way to donate to charity. DAFs are as simple to set up as regular investment accounts and can be funded with as little as \$10,000. Gifts of at least \$250 can then be made to charity at any time. With this irrevocable contribution, donors receive an immediate tax deduction of up to 50% of that year's adjusted gross income (unused deductions can be carried forward). Balances remaining upon the donor's death are distributed to the designated charitable beneficiaries. Donors can select their own investments or hire an investment advisor to manage accounts in excess of \$250,000.

Here is how a Donor-Advised Fund compares with other charitable giving options:

Option	What is it?	Advantages	Disadvantages
Donor-Advised Fund	A charitable fund established with an irrevocable contribution, from which grants can be recommended over time to charities. Run by qualified public charities such as community foundations or charitable organizations associated with private financial institutions.	<ul style="list-style-type: none"> • Simpler and less expensive to set up than a private foundation or trust • Fewer administrative requirements and costs than a private foundation • Donor can involve family in grant recommendations • Can be passed on to future generations • Ability to give anonymous gifts 	<ul style="list-style-type: none"> • Grant recommendations are subject to approval of sponsoring organization • Investment options may be limited • Fees and services vary among sponsoring organizations
Private Foundation	A nonprofit organization that typically is established and supported primarily by one individual, family or entity. "Operating foundations" run charitable programs. "Non-operating foundations" make grants to support charitable programs conducted by other organizations.	<ul style="list-style-type: none"> • Allows a greater degree of control and flexibility in granting than donor advised funds • Opportunity for family to take leadership role through participation on board • Can run charitable programs and scholarships • Can be passed on to future generations 	<ul style="list-style-type: none"> • Greater administrative requirements and higher costs than most other options • Subject to excise taxes & payout requirements • Contributions subject to less favorable deductibility rules • Public disclosure of tax-return information, including grant recipients, required by law
Split-interest Vehicles	Allow donor to make a charitable gift but benefit from the assets given. Examples include charitable gift annuities, charitable remainder trusts, charitable lead trusts and pooled-income funds. Benefits among options vary.	<ul style="list-style-type: none"> • Splits gift so that current benefit goes to one beneficiary and the future benefit goes to another beneficiary • Most split-interest vehicles provide current income to the donor 	<ul style="list-style-type: none"> • Very little flexibility • A specific charity must be designated when the gift is structured (no chance to involve family in ongoing grant making) • Complex tax treatment that is typically less favorable than other methods of giving
Direct Giving	Outright gifts of cash, securities or property to a qualified 501(c)(3) organization.	<ul style="list-style-type: none"> • Simplicity 	<ul style="list-style-type: none"> • Limited or no ongoing involvement • Cannot be passed on to future generations • Gifts of securities or non-cash assets may be difficult or expensive to transfer to charity