Key Private Bank

Reaching charitable goals using donor advised funds

Donor advised funds are growing in popularity, and it is easy to see why. Working as a charitable investment account, this philanthropic vehicle provide donors with a flexible, tax-effective way to support the life-changing work of nonprofit organizations. In addition, donor advised funds can involve the entire family and provide a legacy of sustained giving to important causes for years to come.

How donor advised funds work

The basic concept of a donor advised fund is when a donor contributes to the fund as often as desired and subsequently recommends specific grants to favorite charities when they are ready. We've outlined more specific considerations below:

- A specialized account dedicated to charitable giving, a donor advised fund is maintained and operated by a certain section 501(c)(3) organizations, which is called a sponsoring organization.
- Once a donor advised fund is opened with a sponsoring organization, the account donor can make tax-deductible contributions to the fund in the form of cash, securities, real estate, and other assets as permitted by the fund.
- Gifts to donor advised funds are irrevocable and thus are no longer part of a donor's personal wealth. As a result, donor advised funds are not subject to either estate tax or probate. Also, the donation of appreciated assets allows the donor to avoid capital gains taxes.
- While the sponsoring organization has legal control over the assets of the fund, the donor continues to have significant influence over the account. The account donor can influence how the assets in the fund are invested, but it varies from organization to organization what that means in practice. Perhaps most importantly, a donor recommends grants to specific charities at a time of the donor's choosing.

Sponsoring organizations encompass a wide range of entities, including national charities, community foundations, alumni associations, and investment firms that manage charitable trusts. As an example, Key Private Bank offers investment management services for clients' donor advised funds through a national charity and multiple community foundations.

Advantages of donor advised funds

Donor advised funds offer a number of attractive advantages that can help you meet your needs and goals, including:

Immediate tax benefits: Donors can claim a tax deduction for the year in which you put assets into a donor advised fund; the amount and timing of any actual grant has no bearing on the tax deduction.

Growth potential: Donor advised funds are typically invested and grow tax-free, increasing your giving capacity and impact when a donor is ready to recommend a grant.

Flexibility: Donors do not have to identify nonprofit beneficiaries when you contribute to your donor advised fund, and you can distribute contributions and investment gains to recipients over as long a period as the donor wishes.

Family involvement: Family members may be included in decisions about giving, and a donor can name beneficiaries for your donor advised fund to continue giving after their passing.

Simplicity: The sponsor of a donor advised fund handles all the paperwork, including recordkeeping and disbursements.

Low minimums: With minimums as low as $5,000, donor advised funds are available to a wide range of individuals and families.

Anonymity: If you wish, grants from your donor advised fund may be made anonymously.

The tax advantages of donor advised funds are especially noteworthy when making a gift of a security with long-term capital gains. You can avoid capital gains tax on appreciation and receive an income-tax charitable deduction for the fair market value of the contributed securities. The asset's value can continue to grow in the fund, providing the potential to amplify your giving in the future.

Getting the most out of your donor advised fund

A little planning at the outset can ensure that you maximize your charitable giving with a donor advised fund. To get the best possible counsel on the tax, legal, and investment implications of a donor advised fund, it is important that you meet with your trusted advisors to help you determine the best route to take.

Checklist	Questions to address
☐ Defining your philanthropic goals	• What are your values and interests? • Why do you want to give? • Are there specific charities or causes that you want to support? • What is your planned timeframe for giving? Is it before/after your lifetime?
☐ Donating assets	• Which assets will be donated? • Do you plan on donating assets to the fund over time? • Does the fund accept assets other than cash and publicly traded securities? • Do you have highly appreciated assets?
☐ Engaging family members in philanthropy	• Who will be involved in decisions regarding charitable giving? • Is it important to you to include family members in philanthropy? • If so, how do you wish to involve your family in defining values, setting objectives, and working collaboratively to achieve philanthropic goals?
☐ Understanding your investment options and fees	• What investment options are available in the fund? • Are values-based investing strategies such as environmental, social, and governance (ESG) funds among the choices? • How do the fund's investment options compare performance-wise with peers? • What fees and expenses are associated with the fund—investment, administrative, other?
☐ Processing recommendations and making grants	• What is the process for making recommendations to the sponsor? • What are the requirements for an organization to receive money from the fund? • Are there limits on grants, e.g., minimum amounts, maximum number of grants each year? • What reports will you receive and how frequently?

For more information, please contact your Key Private Bank Advisor.

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