Published on *Brightworth* (http://www.brightworth.com)

If You Want to Make Charitable Contributions in 2018, Consider a Donor Advised Fund

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As the end of 2018 draws near, many Brightworth clients will begin considering giving money to their favorite charities and nonprofit organizations. But recent changes to the federal tax laws have the potential to dramatically alter those plans. So, I wanted to lay out a potential strategy now for people to consider implementing before December 31.

Here's some background on the new tax law. Starting in 2018, the federal Tax Cuts and Jobs Act doubles the standard deduction to $24,000 for married couples and $12,000 for individuals. This change, combined with a new $10,000 limit on state and local income and property taxes, means many taxpayers are much less likely to itemize going forward. This means that some people will forego their charitable contributions since they can't deduct it.

Many of my clients are generous people that contribute millions of dollars annually to various healthcare, education, anti-poverty, faith-based and other nonprofit organizations. To continue making those contributions and still receive tax deductions, I often recommend simple, yet versatile, tool called a Donor Advised Fund (DAF).

A DAF allows anyone to contribute cash, stock or other assets to a charitable organization and receive a full tax deduction at the time of the gift. In effect, it's like your own mini-private foundation without the same cost and complexity.

Several of my current clients already use a Donor Advised Fund for their charitable contributions. And many organizations use them to promote philanthropy. Donor Advised Funds held $85 billion in total assets in 2016, according to the National Philanthropic Trust. Here's an example of how a Donor Advised Fund works:

In 2017, one of my client's income was unusually high after cashing in stock options and receiving other compensation at retirement. Needing a tax deduction to offset these gains, he set up a DAF with a $200,000 tax-deductible contribution.

While the tax deduction helped offset his high income, he was also able to use money from the fund to make $20,000 in annual contributions to his favorite charities for the next 10 years. Now that he is retired and his taxable income is significantly lower, he will simply take the generous new standard deduction in 2018 and for several more years.

For 2018, this strategy makes even more sense, especially at a time when the stock market is still near record levels. Anyone can donate stocks that have appreciated over several years instead of cash. By donating assets with long-term capital gains, a person can effectively "give away" the tax gain to the tax-exempt organization. It's a win-win strategy for both the donor and the charity.

Donor Advised Funds also enhance spontaneous giving. Not long ago, a woman I counsel who makes generous annual donations to her church and other organizations recently faced a potentially large tax bill. We set up a Donor Advised Fund so she could “front-load” her contributions to get the tax deduction while spreading out her charitable donations over time.

Her long-term giving plan included money for a halfway house for girls rescued from the sex slave trade. So, when an unexpected wave of girls came to this charity for help, my client was able to respond quickly with funds she had already set aside.

Solid strategic planning allowed her to meet the needs of the organization, fulfill one of her most passionate causes and save a significant amount of money in taxes. Between now and December 31, I urge others seeking to use their wealth to benefit our community to do the same.

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