Symphona

7 Things to Know About Donor Advised Funds

If you donate to charitable organizations, you might want to consider establishing a donor-advised fund. A donor-advised fund is a charitable tax-saving tool that enables you to maintain a certain level of control over how funds are distributed while receiving immediate tax benefits.

A donor-advised fund is a separately identified fund or account that is maintained and operated by a section 501(c)(3) organization, which is called a sponsoring organization. An individual donor can make contributions to the fund, at which point the sponsoring organization gains legal control over the funds. The donor is then able to gain immediate tax benefits for the contributions while still being able to advise how the funds are invested and ultimately distributed to qualified charities.

This document covers 7 things to know about donor-advised funds.

#1 - Immediate tax benefits

You can maximize tax deductions now while being able to contribute to charities over an extended period of time. When you donate to charity, you only receive a tax benefit in any given year if you itemize and exceed the standard deduction which is $12,550 for single filers and $25,100 for married filing jointly for tax year 2021. A donor-advised fund enables you to aggregate the contributions you would be making over multiple years into a single year, thereby better positioning you to exceed the standard deduction and maximize your itemized deductions. It's important to note that there are certain deduction limits for charitable contributions, but if you exceed those limits, the remaining amount can be carried forward for up to five years.

#2 - Donation flexibility

Even though you may make a lump-sum contribution to the donor-advised fund in a single year, distributions from the donor-advised fund to qualified charities can be spread out over many years. A sponsoring organization may have certain minimum requirements, such as having to distribute at least every three years, but in general, there is a great amount of flexibility in selecting qualified charities, donation amounts, and timing of donations.

In addition to the flexibility in donations, your donor-advised fund may be able to last in perpetuity, depending on the rules of the sponsoring organization. You can appoint co-advisors and/or successors to ensure your heirs and loved ones will always have input over how the funds are disbursed.

#3 - Easy to donate appreciating assets

Donating appreciated assets that have been held for at least one year enables an individual to avoid paying the capital gains on those assets. However, many charities are not set up to accept non-cash donations such as public securities, restricted stock, cryptocurrencies, private equity positions, or shares in privately held companies. A donor-advised fund solves this problem because most sponsoring organizations make it simple to contribute these types of assets to your donor-advised fund.

#4 - Funds grow tax-free

While the funds reside in your donor-advised fund, they can be invested and grow tax-free. So, an initial donation of $20,000 could eventually grow and provide, $30,000 in charitable funds to nonprofits of your choice over time. With that said, each sponsoring organization may have different investment options, so you'll want to research the investment options provided by any sponsoring organizations under consideration.

#5 - Can't be used for personal benefit

By law, donors aren't allowed to gain a personal benefit such as paying off debt or receiving some type of consideration for the donation. For example, a grant from your donor-advised fund cannot be used to purchase tickets for you to attend a charitable event. You also cannot use the donor-advised fund to pay a legally binding personal pledge.

#6 - Loss of control

Donor-advised funds are irrevocable, so you are not able to get your money back for any reason. Donor-advised funds are managed by the sponsoring organization. Even though you can make recommendations on how the funds are donated, you don't technically have the final say. But with that said, most sponsors will act in accordance with your recommendations so long as the recipient is an eligible charity.

#7 - Record-keeping simplification

A key benefit of a donor-advised fund is that it can keep track of the contributions you make to it during the year and generate a single tax document for record-keeping purposes. This contrasts with the difficulty of tracking deductions if you were to write checks to a number of different charities. Additionally, a donor-advised fund helps to ensure that your donations are directed to qualified charities that are registered with the IRS as 501(c)3 organizations.

Next Steps

If you would like to learn more about how a donor-advised fund may help you achieve your charitable and tax goals, please contact our office for a consultation.

Symphona

About Symphona

When every component of your business is working together, those connections can create powerful and positive change. At Symphona, we are a proactive team of advisory focused accounting, consulting, and IT specialists. Our deep knowledge of business and collaborative spirit helps to identify opportunity.

Our experts work in close collaboration with everyone, including businesses of all sizes as well as individuals, to create value in each relationship. Symphona is where you'll have all the accounting tools you need to secure your financial future in one convenient place.

Atlanta
1050 Crown Pointe Parkway,
Suite 810
Atlanta, GA 30338
(678) 242-1300

Dublin
1004 Hillcrest Parkway
Dublin, GA 31021
(478) 272-2030

Marietta
821-B Livingston Court
Marietta, GA 30067
(770) 955-1755

Savannah
118 Park of Commerce Drive,
Suite 200 Savannah, GA 31405
(912) 238-1001

https://www.symphona.us/