



STONEWALL COMMUNITY FOUNDATION

Full Article by Martin Cowart:

Donor Advised Funds

To truly grasp the abundance in our lives, The Zen Masters teach us to practice the “give away” as a practical way of healing our fears of scarcity. Finding ways to continue to give generously is ever more important for our own well being and the needs of others as we face the challenges brought on by the current global economic crisis.

As a financial adviser and a CPA, one of the many things that my clients come to me for is advice in the arena of philanthropic planning. I am often asked, “What are the best assets to give to charity?” or “How can one maximize one’s tax-deduction and thus best leverage one’s charitable inclinations?”

Depending on your goals, there are many vehicles one can use to make donations to those charities you care about. You can give to charities directly, foundations can be created and trusts can be established.

One vehicle that many of our clients have used that I see becoming increasingly popular is a Donor Advised Fund. A Donor Advised Fund is a charitable plan where a donor makes a substantial gift to a public charity or community foundation, which sets up a sub-account or fund in the donor’s name. The donor or someone selected by the donor makes recommendations for grants to be paid from the fund to selected eligible charitable beneficiaries.

When would a Donor Advised Fund be useful?

As champions of economic prosperity, we know our clients, and our society and culture, gain greater value when we are able to co-create financial strategies together from a philosophical platform based on abundance and value creation.

We have discovered that those who plan for their financial future following a principled approach to wealth creation have the opportunity of better achieving what is needed to support their desired life style. This is especially true when it comes to charitable giving. Developing and implementing a planned approach to the charitable component of your financial strategy can simplify the process and

maximize the value of contribution dollars. A Donor Advised Fund can be very useful when a donor wants to achieve one or more of the following:

- When a donor wants to make a substantial gift quickly, perhaps to meet favorable tax treatment, and needs more time to decide which charities to support.
- When a donor would like to maintain more control over multi-year donations to his or her chosen charity. Priorities change, both from the donor's perspective and the selected charities. As the donor's criteria and expectations change over the years, they have the flexibility to recommend grants be given to other charities that are more in line with their concerns and causes.
- When a donor would like to obtain advantages similar to a private foundation without the complexities.
- When a donor would like to build a charitable legacy. The Donor Advised Funds provides flexibility to name others, such as life partners, children, or favorite nieces and nephews, as advisors while you are living and to succeed you after your death. This can be especially valuable for same-sex couples, where tax returns are filed separately. The partner receiving the more favorable tax advantages will make the contribution and the couple named on the fund can be recognized together.
- When a donor would like to build towards a significant endowment fund. Once the initial gift is made to the parent charity, the donor may recommend investment strategies that would allow funds to grow tax free into a more significant grant.

Advantages of Donor Advised Funds

- Contribute on the donor's own schedule. The donor has the flexibility to contribute to the parent charity when it is advantageous, frequently from a tax planning perspective, and make individual contributions perhaps from a deeper inspirational observation.
- Immediate tax deduction. The donor is allowed to take the take advantage of the tax deduction at the time of the gift to the donor fund.
- Most favorable tax deduction. Donations made to a public charity are provided the maximum tax deduction allowed. Cash gifts are allowed a deduction up to 50% of the donor's Adjusted Gross Income and 30%

Adjusted Gross Income for non-cash contributions, such as stock or mutual funds.

- Simple to understand and easy to use. Public charities that have established Donor Advised Funds have typically done the back-stage work to make it very easy for the donor to clearly grasp how it works and confidently participate.
- Quick and easy to set up, which can be very useful at year end. Once the donor has decided on a parent charity, setting up a donor advised funds is as simple as completing application forms, deciding on a “fund name” and transferring assets.
- The flexibility of being acknowledged or anonymous. Donors have the option to make grants to charities in their fund name or anonymously, whichever feels most appropriate at the time of the gift.
- Research and evaluate charities. Typically the parent charity supporting the Donor Advised Fund provides tools and resources to help the donor research causes and learn more about specific charities, allowing the donor to make grant recommendations confidently knowing their money is supporting the causes they care most about

Disadvantages of Donor Advised Funds

- Gifts are irrevocable. Once the donor has transferred assets to the parent charity the parent charity has absolute control over those funds. While the donor is allowed privileges as to how funds are managed and granted, the parent charity is ultimately controlling the fund.
- Typically the sponsoring charity imposes annual fees and charges. Depending on the charity, these can be minimal or substantial.
- Some charities impose restrictions around how grants are made. Recognizing the parent charity ultimately controls the fund, the donor should clearly understand any rules and restrictions before setting up the fund.
- The donor’s “rights” to control the management and the distributions of the fund assets are limited.

How a Donor Advised Fund Works

Setting up a Donor Advised Funds is really easy. All you need to do is select a parent public charity or community foundation, name the fund, and make the initial contribution

1. Once you have established the parent charity, it is simply a matter of completing their forms with your personal information and intention for setting up the fund.
2. Once you have set up the fund, you will need to select a name. Selecting a name can be quite fulfilling as one decides how they want to establish themselves as a philanthropist in their community. Typically the fund is set up as "The (family name or names) Fund". You also have the option to include words to describe the purpose of your fund.
3. Once established you will need to make an initial grant to the fund. Depending on the requirements of the parent charity, these amounts range from \$5,000 up to \$100,000. This initial grant can be in the form of cash or non-cash assets such as stocks and/or mutual funds.
4. If non-cash assets are donated, the charity will usually liquidate to cash. (This can be a great way for the donor to avoid capital gains tax.)
5. The donor takes the allowable tax deduction.
6. The donor will select one of the investment strategies offered for the fund.
7. The donor will make grant recommendations to the parent charity.
8. The parent charity will perform due diligence on the charity to assure the money is going to a legitimate use.
9. Once approved, the parent charity writes a check to the charity/grantee. Depending on the desires of the donor, this check is given in the name of the fund or anonymously.
10. The parent charity will provide the donor statements, at the end of the giving period, which provides details of gifts and other activities that occurred in the fund account.

An example of a Donor Advised Fund at work

Carlos Fuentes and Brad Reed, life partners for over seven years, share a home together in Manhattan and like being recognized by their community as a loving couple. Both men have enjoyed successful careers. Carlos is a gifted men's clothing designer and Brad has served the community for years as a nurse practitioner working with HIV and AIDS patients. Carlos had a very profitable year and his CPA recommended he consider making a charitable contribution before year end as a way to reduce his tax bill.

With the advice of their CPA, Carlos and Brad decide they want to contribute \$50,000 to charitable organizations supporting the LGBTQ community. In addition to cash and other assets, Carlos owns 1000 shares of Coca Cola stock he purchase in 1990 for \$10.00/share, which is trading at \$45.00/share. Carlos and Brad speak with an advisor at the Stonewall Community Foundation and discover how simple it is to establish a fund in their Donor-Advised Fund Program.

Carlos and Brad complete applicable forms and decide to name their fund "The Carlos Fuentes and Brad Reed Charitable Fund" with both named as advisors. To make the initial \$50,000 charitable contribution, Carlos writes a personal check for \$5,000 and transfers his 1000 shares of Coca Cola stock valued at \$45,000 to the Stonewall Community Foundation for the benefit of "The Carlos Fuentes and Brad Reed Charitable Fund". Carlos will immediately receive the tax benefit and the couple will be able to make grant recommendations and receive recognition for their charitable contributions together as life partners.

The Stonewall Foundation, Donor-Advised Fund Program

The Stonewall Community Foundation is the public charity for lesbian, gay, bisexual and transgender (LGBT) New York. Driven by their mission to promote the well-being of LGBT individuals and strengthen the LGBT community, this public charity has been able to efficiently channel charitable contributions by increasing resources strategically to areas of greatest need.

Their Donor-Advised Program serves the LGBT community by helping their donors support LGBT causes they care about and provides a unique way of highlighting "LGBT charitable giving" to worthy causes not specifically targeted to the LGBT community. "Stonewall believes that a vibrant, fully integrated LGBT community will catalyze the creation of an all-inclusive society."

To find out more about The Stonewall Foundation, Donor-Advised Fund Program please visit their website at www.stonewallfoundation.org.

Conclusion

As is the case with any financial tool, a Donor Advised Fund is not the best solution for every situation. Charitable giving and tax planning are complicated and nuanced subjects for which one should retain competent professional guidance. I hope you have found this article helpful. Please send any follow up questions to martin_cowart@strategiesforwealth.com . I welcome your emails and will respond.

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