

Should You Give to a Donor-advised Fund?

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Wealthy entrepreneurs with charitable intentions may choose to set up a private foundation. But a more convenient alternative is gaining in popularity: the donor-advised fund.

This technique may be especially appropriate if you need to devote more time to business activities in the current economic environment. The fund does most of the hard work for you and requires less personal attention than a private foundation. In some cases, you might even convert an existing private foundation into a donor-advised fund.

Basic premise: You donate cash (or in some cases, property) to a special account managed by a sponsoring charitable organization. Then you recommend the charities you would like to see benefit from the funds.

Although you cannot legally require these organizations to be the recipients, the fund generally will go along with your suggestions, unless there is a legal reason not to. In other words, you pretty much decide who gets what and how much.

Furthermore, you may qualify for a current tax deduction, based on the value of your contribution to the fund. Subsequent additions to the fund may also qualify for deductions. Thus, this arrangement may provide tax benefits for years to come.

Usually, the donor-advised fund will require a minimum initial outlay (e.g., \$250,000) to get started. The sponsor will also likely charge a relatively small administrative fee for its services.

Here are some of the key advantages you may gain through a donor-advised fund:

- The sponsoring charity handles all of the administrative matters for you. From your perspective, it is a relatively simple arrangement.
- Your privacy is protected. If you wish, you can make gifts anonymously. In contrast, private foundations must make public disclosures.
- A donor may qualify for significant charitable deductions. For instance, higher adjusted gross income limits may apply to gifts made to donor-advised funds than charitable foundations.

- There are no mandatory distributions. On the other hand, a private foundation must distribute at least 5% of net assets annually.

Be aware that converting a private foundation to a donor-advised fund requires strict adherence to several arcane IRS rules. In addition, you must be sure to comply with any state law requirements.

Although the sponsoring charity can provide guidance in this area, you should generally consult an experienced professional adviser. The adviser can take care of the required paperwork and handle related administrative matters.

With the proper assistance, you may be able to establish a donor-advised fund that accomplishes your main personal planning objectives. Of course, the arrangement is not for everyone. Consider this alternative carefully if you have the financial means to do so.

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