Why all the Chatter about Donor Advised Funds?

Tax reform, passed in December 2017, substantially increased the personal standard deduction for 2018 from $12,000 to $24,000 for a married couple. Based on the larger standard deduction, it is projected that fewer taxpayers will find it beneficial to itemize deductions. Since contributions to charities are a tax deduction *only* for those taxpayers who itemize deductions, many individuals are considering establishing a Donor Advised Fund (DAF) that may allow them to deduct charitable contributions and also allow for larger tax deductions over a few years.

What is a DAF and how does it work?

- A DAF is a separate account established to hold the charitable contributions paid by the donor.
- The donor may contribute cash or appreciated investments to the account. Individuals can combine several years of charitable contributions into one year and receive an immediate tax deduction of the amount deposited into the DAF.
- Payments to charitable organizations may be delayed into future years. Meanwhile, the growth in a DAF is tax deferred.
- The firm that holds the DAF is called a sponsor. The donor provides the sponsor the amounts and charities to which they would like to make a contribution. The sponsor will verify the charity is recognized by the IRS as a qualified charity before payments are made.

Who should consider a DAF?

Ideal candidates for establishing a DAF are individuals who project their itemized deductions may be fairly close to the new standard deduction ($24,000 for a married couple; $12,000 for a single individual).

Example of a DAF

- Married couple does *not* establish a DAF in 2018
  - Married couple projects itemized deductions of $23,000 in 2018, 2019 and 2020. Included in these amounts are $9,000 of charitable donations paid for each year.
  - Assuming the couple continues to pay annual charitable cash donations of $9,000 personally, they will no longer itemize deductions and receive the standard deduction of $24,000.
  - **Total standard deductions for the three-year period will be $72,000.** ($24,000 X 3 years)
- Married couple establishes a DAF in 2018.
  - Cash is donated to the DAF in 2018 of $27,000 ($9,000 for each 2018, 2019 and 2020). The couple's charitable contributions for three years are being combined into 2018.
  - **The total deductions for the three-year period will be $89,000.**
    - 2018 – couple will itemize deductions = $41,000. ($23,000 projected itemized deductions plus additional contributions of $9,000 for 2019 and 2020 into the DAF)
    - 2019 – couple will use the standard deduction of $24,000
    - 2020 – couple will use the standard deduction of $24,000
- Assuming a tax rate of 25%, the couple may save $4,250 in taxes to open and fund a DAF. Please note that the benefit may be higher if the individual contributes appreciated investments to fund the DAF. Any long-term capital gains on the investments donated will not be taxed to the individual, thus providing additional tax savings over and above the $4,250.

While the major change in the tax laws is the driving factor for the increased interest in this planning technique, there are other reasons for individuals to consider DAFs in their planning. If you have not considered a DAF, it may be a good time to make that assessment.

For additional information or questions, contact Domani Wealth at 717-393-9721.

Submitted by
DOMANI WEALTH
Angie M. Stephenson, CFP®, CPA/PFS
Partner, Senior Wealth Advisor, COO
Domani Wealth, LLC