Donor-Advised Fund

Extra deductions and involving heirs

Jack and Dee Twain have made annual gifts totaling $5,000 to their church, their alma mater, and the local symphony. With a combined income of $175,000, the Twains portfolio includes liquid investments valued at $2.5 million including $100,000 worth of XYZ stock that Dee purchased with a $40,000 inheritance several years ago. The Twains want to sell XYZ stock but don't want to pay the $11,550 in capital gains tax..

The Twain's financial advisor recommends creating a donor-advised fund to endow their annual giving. By transferring the XYZ stock to a donor-advised fund, they receive an immediate $100,000 income tax deduction, which reduces their tax burden by $28,000. Also, with all of their charitable giving now coming from The Twain Family Foundation, they have freed up $5,000 of cash flow each year to use for other purposes.

After the stock transfer, the stock is sold and the proceeds are reinvested in funds designed to allow growth within the DAF, allowing additional amounts to be granted to charities in the future. The financial advisor also recommends the Twains purchase additional investments with a portion of their tax savings and their previous checkbook giving of $5,000, and within a few years, the new investments may equal or exceed the $100,000 value of XYZ stock. Additionally, the Twains will have a higher cost basis in the new investments.

Benefits of Twain donor-advised fund

- Income tax deduction: $100,000
- First-year tax savings: $28,000
- Capital gains tax avoided: $11,550

Assumptions

- Deduction may be limited. Consult a tax advisor.
- Marginal Federal and state income capital gain tax rate of 19.25%.
- For illustration purposes, the income tax burden reduction reflects the Twain's Federal marginal rate of 28% since many states do not permit itemized charitable deductions.

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This example is hypothetical and for educational use only. The situations, tax rates, or return numbers do not represent any actual clients or investments. There is no assurance that the rates depicted can or will be achieved. Actual results will vary. Please consult with legal and tax counsel about the suitability.

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