

Is now the time to consider a Donor Advised Fund?

The new tax bill has almost doubled the standard income tax deduction. This has concerned both tax payers and non-profits that rely on donations about the ability to deduct charitable giving. A donor advised fund is a smart way to plan charitable giving with an income tax benefit.

Donor advised funds (DAFs) are investment accounts that are restricted on disbursements to IRS recognized public charitable organizations. Contributions to a DAF can come from appreciated stock, mutual funds, other investments and they are eligible for an immediate Federal income tax deduction. Owners of these accounts can pre-fund current and future gifts to charitable organizations while the value that remains in the account grows tax-free.

The amount taxpayers must itemize before they can deduct their charitable contributions is \$24,000 for married couples. As a result, many taxpayers may receive a reduced tax benefit to their charitable giving if their allowable deductions – primarily state and local taxes and property taxes capped at \$10,000 and mortgage interest - do not reach the standard deduction on their own. However, an interesting planning technique utilizing DAFs will still help donors and charitable recipients meet their charitable, tax planning and program funding objectives.

Nonprofits worry that direct charitable giving may decline in 2018. A technique referred to as “bunching” can help if implemented in 2018, the first year, by doubling up on charitable contributions and then in the second year skipping donating and taking the standard deduction; in 2020, you make gifts and itemize, and so on. But this technique may also impact charities negatively in the off-year so the ideal solution is to directly contribute to a DAF in the first year and disburse those funds to charities over several years.

Donor advised funds (DAFs) have been around for years. By working with a local partner such as the Oak Park-River Forest Community Foundation, you are able to execute anything from a simple to a sophisticated charitable plan, achieve income tax benefits, and feel good about investing in and visibly impacting local missions.

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