The donor-advised fund

Wealth Management

Charitable giving can be a powerful way to create a legacy and carry the family name into the future. It also offers a financial tool for family estate planning and tax management.

One charitable giving vehicle that is popular with financially successful individuals and families is the donor-advised fund (DAF). Choosing a DAF to help accomplish your charitable goals may offer you an easy way to make significant gifts over a long period of time—while enjoying significant tax advantages. And unlike a private foundation, a DAF may require less money, time and legal/administrative assistance to establish and maintain.

The donor-advised fund: what is it?

A DAF is often used by cost-conscious donors or by donors who wish to maximize their current income tax deductions. It is a gifting vehicle created with a parent organization such as a community foundation or another qualified 501(c)(3) nonprofit organization. The parent organization provides a document, normally free of charge, in exchange for an irrevocable relationship. While you may choose what charity to support, you have few responsibilities beyond donating funds and suggesting how they are used. The parent organization will provide you with options for the investment component, as well as the complete administration of the fund without the paperwork and start-up expenses. Contributions of cash can be deducted up to 60% of adjusted gross income (AGI). Appreciated securities (marketable securities are valued at fair market value) are usually limited to 30% of AGI. A five-year carry-forward of any remaining deduction is available.

How does it work?

Funding your account is fairly straightforward. First, you sign a letter of understanding, which establishes the account, names it and recommends an investment strategy. You can choose an endowed fund, which invests your contribution in perpetuity and is allowed to distribute earnings only—helping create a lasting memory of your philanthropic goals. Or you can choose a non-endowed fund, which allows you or your designee to make distribution recommendations up to the entire account balance (principal and earnings). Next, you contribute the required minimum amount of assets, which may include cash, marketable securities and other types of assets, depending on the fund. The required minimum contribution varies from fund to fund. However, it is often less than the minimum contributions required by private foundations.

Throughout your lifetime, the DAF allows you or your designee to make ongoing, non-binding recommendations to the fund regarding how much, when and to which charities grants from the fund should be made. You or your designee can also offer advice to the fund as to how contributions should be invested.

Plus, the DAF allows you to make additional contributions from year to year, which helps you generate additional income tax deductions when the transaction is completed. This is one of the key benefits a DAF may offer you during your lifetime.

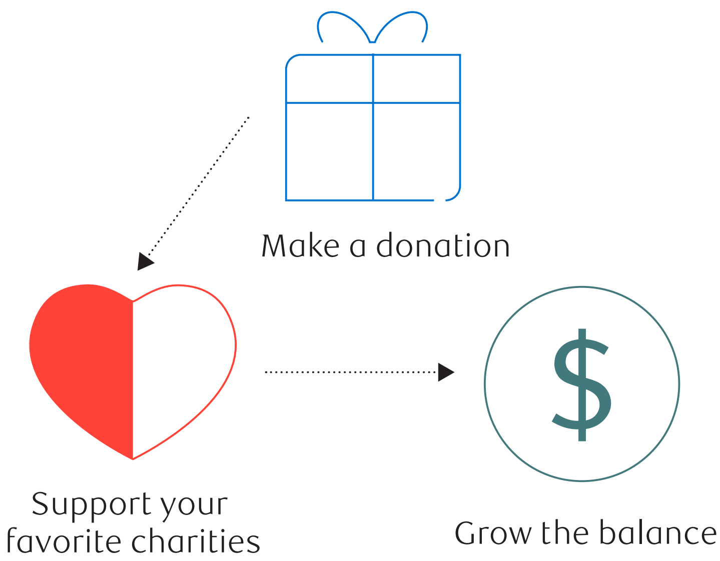
For estate planning purposes, the DAF can make grants to charities named in your will or other legal instrument, such as a revocable living trust. Or, you may designate which heir(s) may make grant recommendations.

These distributions can be identified as coming from your specific account, or they can be made anonymously at your request. However, there is one important caveat: the fund is not obligated to follow your suggestions—that is why they are called “donor-advised funds.” While keeping this fact in mind, it’s also important to observe that in general practice, many DAFs honor the wishes of the donor’s estate.

Setting up a DAF through RBC Wealth Management

Call your financial advisor today to discuss how you can create your legacy through charitable giving and enjoy significant tax advantages by using a donor-advised fund.

How donor-advised funds work



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Bunching tax deductions to impact charitable giving

Like many other Americans, annual giving may be part of your long-term strategy to help accomplish personal and charitable goals. By carefully planning your giving, you have the ability to support your favorite causes while enjoying the possible income tax benefits.

Prior to the Tax Cuts and Jobs Act of 2017 (TCJA) that went into effect in 2018, charitable giving was incentivized because there was a corresponding income tax deduction for gifts made to qualified charities. Under the TCJA, the federal standard deduction nearly doubled, so for many taxpayers, the need to itemize has been eliminated.

Changes to federal income tax standard deduction rates

Taxpayer status	Pre-TCJA tax years*	Current tax year*
Individuals	$6,500	$12,550
Heads of households	$9,550	$18,880
Married, filing jointly	$13,000	$25,100

*Taxpayers over age 65 can take an additional $1,700 deduction ($1,350 for married couples, filing jointly).

The good news is, charitable donations to qualified charities and private foundations continue to be deductible as an itemized deduction under the TCJA, subject to adjusted gross income ("AGI limits"). Note that for cash donations to a qualified charity, the AGI limit was raised from 50% to 60%, and the limit remains at 30% for capital assets like stock.

Yet unless total itemized deductions, including charitable contributions, mortgage interest, medical deductions, state and local taxes (SALT) combined equal more than $12,550 for individuals or $25,100 per married couple, taxpayers will likely use the new standard deduction versus itemizing.

Benefits of bunching charitable donations

Couple 1 — No bunching

Annual standard tax deduction of $25,100
Annual charitable deduction of $12,500(annual itemized deductions are less than standard deduction including charitable deduction)

2023 $12,500 | 2024 $12,500
2021 $12,500 | 2022 $12,500

Total deductions over 4 years: $100,400

Couple 2 — Bunching

Annual standard tax deduction of $25,100
Biennial charitable deduction of $25,000 (itemized deductions are greater than standard deduction with charitable deduction of $25,000)

2023 $25,000 | 2024 $0
2021 $25,000 | 2022 $0

Total deductions over 4 years: $122,200

Couple 2

By bunching their donations into one year, and taking the standard deduction, couple 2 received $21,800 more in deductions compared to not bunching over the course of four years of charitable giving.

Hypothetical example

If a couple uses the standard deduction of $25,100, and they typically donate $12,500 per year to charity—but their other deductible expenses are minimal—they may be losing the tax benefit of the charitable deduction. Accelerating several years of giving into a single year (sometimes called “bunching”) may allow some tax benefits. By bunching their donations into one year, and taking the standard deduction in the following year, they receive $21,800 more in deductions compared to not bunching over the course of four years of charitable giving.

Couple 1 — No bunching	2021	2022	2023	2024	Total
Charitable deduction	$12,500	$12,500	$12,500	$12,500	$50,000
SALT deduction	$10,000	$10,000	$10,000	$10,000	
Medical deduction	$1,000	$1,000	$1,000	$1,000	
Mortgage interest	$0	$0	$0	$0	
Total itemized deductions	$23,500	$23,500	$23,500	$23,500	
Standard deduction used	$25,100	$25,100	$25,100	$25,100	$100,400

Couple 2 — Bunching donations	2021	2022	2023	2024	Total
Charitable deduction	$25,000	$0	$25,000	$0	
SALT deduction	$10,000	$10,000	$10,000	$10,000	
Medical deduction	$1,000	$1,000	$1,000	$1,000	
Mortgage interest	$0	$0	$0	$0	
Total itemized deductions	$36,000	$11,000	$36,000	$11,000	
Standard deduction used	$25,100	$25,100	$25,100	$25,100	
Deduction used	$36,000	$25,100	$36,000	$25,100	$122,200
Difference in deductions					**$21,800**

Consider a donor advised fund for bunching gifts

A donor advised fund (DAF) offers an easy way to make gifts over multiple tax years for tax purposes. Contributions to the DAF are deductible just as though the donation was made to a qualified charity, funds can be invested according to your recommendations and grants can be dispersed according to your suggestions. By using a DAF, you can “bunch” charitable gifts, maximize tax savings and continue your consistent support of favored charities.

Call to action

To discuss how a donor advised fund may fit into your overall philanthropic and tax planning goals, contact your RBC Wealth Management financial advisor today.

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Gifting appreciated stock to charity

If you are considering a charitable contribution this year, it is in your best interest to seek out the most effective manner in which your money can work for you. Gifting appreciated stock is one of the most effective means of tax savings available.

The benefits of gifting appreciated stock

1. The satisfaction of knowing your money is invested in a cause important to you.
2. Capital gains taxes on the stock are avoided.
3. You will be eligible to receive an income tax charitable deduction for the full fair-market-value of the stock at the time of the gift.

To qualify for these special tax advantages, the security must have been held for at least one year. A gift of stock in certificate form should be postmarked by December 31, or your financial advisor can arrange for a year-end gift of stock from your account.

Your gift of appreciated stock is fully deductible up to 30% of your adjusted gross income. For example, if your adjusted gross income is $100,000, up to $30,000 of long-term appreciated stock and other capital gain property may generally be deducted, although high-income donors may be subject to a partial phase-out of itemized deductions. Any excess can generally be carried forward and deducted over as many as five subsequent years.

How giving away $10,000 in stock can benefit you

Take a look at the tax savings of donating securities versus a cash gift. The chart below assumes you wish to donate shares of stock worth $10,000 that you purchased for $2,000 several years ago.

	Donate appreciated securities outright	Donate $10,000 cash	Sell securities and donate cash
Charitable deduction	$10,000	$10,000	$10,000
Ordinary income tax savings (assumes 35% rate)	$3,500	$3,500	$3,500
Capital gains tax paid (assumes 15% tax rate on $8,000 gain)	$1,200 saved	N/A	$1,200 paid
Net tax savings	$4,700	$3,500	$2,300

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Tax-free IRA distributions for charitable giving

Wealth Management

Qualified charitable distributions allow you the convenience to reduce taxable income, achieve charitable giving goals and if necessary satisfy your required minimum distribution[1]—all in one transaction.

Individuals over age 70½ can donate up to $100,000 from an IRA directly to a qualified charity without triggering any federal income taxes.

Under the qualified charitable distributions provision, you request a distribution from your IRA and provide RBC Wealth Management with the name and address of the qualifying charity. The distribution will be sent directly to the charity of your choice. Married spouses who are both age 70½ or older can each contribute up to $100,000 annually. However, the contributions must come from their own IRA.

Benefits of qualified charitable distributions

There are a number of potential tax benefits to you for making a charitable contribution directly from your IRA:

- Income tax on the distribution is avoided—even if you do not itemize deductions and even if your gifts exceed the percentage-of-income limits for charitable deductions.
- The qualified charitable distribution comes out of the pretax portion of your aggregated IRAs. This is an exception to the usual rule regarding recovery of IRA basis.
- The distribution does not increase your adjusted gross income for purposes of reducing itemized deductions, nor does it limit the amount of deductible medical expenses or miscellaneous itemized deductions or increase the taxation of your Social Security benefits.
- If the state you live in determines taxable income based on federal adjusted gross income, there is no state income tax on the distribution—even if the state does not allow the charitable deduction.

Note: Because the transfer is tax-free, you may not take the charitable deduction on your tax return.

Qualified charitable distribution requirements

Certain requirements need to be met in order for a distribution to be considered a qualified charitable distribution.

These include:

- The distribution must come from a traditional or Roth IRA. The provision does not apply to active SEPs and SIMPLE IRAs or qualified plans.
- You must be age 70½ or older by the date of distribution.
- In the case of an IRA maintained for the benefit of a beneficiary after the death of an IRA owner, the beneficiary must be age 70½ or older by the date of distribution.
- The distribution must go directly from the IRA to the charity.
- The receiving charity can be any qualified nonprofit other than a Donor-Advised Fund, a supporting organization or certain private foundations.
- The contribution must be one that would normally be 100% deductible as a charitable contribution.
- Check-writing via a qualified account is a best practice.
- Charity needs to cash check prior to December 31.
- Receipt is required.

Put qualified charitable distributions to work for you and your favorite charities. Call your RBC Wealth Management® financial advisor today to discuss how this opportunity may help you minimize your tax exposure, achieve your charitable goals and satisfy your required minimum distribution all at once.

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[1] Qualified charitable distributions can begin at age 70½; the required minimum distribution age is 72.

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Charitable giving benefits

At a glance

Charitable giving can be a powerful financial tool in addition to contributing to an organization or cause you feel passionate about. There are a number of strategies, each with its own advantages and benefits, that can be used for effective philanthropy.

With access to RBC Wealth Management trust consultants, independent professional trustees and charitable entities, your financial advisor can assist with your specific charitable giving plans and guide you through any complexities. Contact your financial advisor today to discuss the benefits of charitable giving.

Charitable giving vehicles

Type of gift	Benefit
Outright gift	• Immediate income tax deduction
Will or trust bequest	• Estate can take income and estate tax deductions
Donor-advised fund (DAF)	• Immediate income tax deduction • Donor may advise on which charities receive assets over a future timeframe
Private foundation	• Immediate income tax deduction • Donor and descendants have complete control over which charities receive grants
Charitable remainder trust (CRT)	• Immediate income tax deduction • Stream of income to non-charitable beneficiary • Remove assets from the estate for income and estate tax purposes
Charitable lead trust (CLT)	• Remove assets, which you expect to substantially appreciate in value, from your estate (you pay estate tax on the value of the assets when they are transferred to trust) • Donate to charity but ultimately keep trust assets in the family

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