



UTAH VALLEY UNIVERSITY

Unlocking the Power of Donor-Advised Funds

Why Charitable Planning is the Next Big Differentiator for Financial Advisors

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UI CHARITABLE



Learning Objectives

- Understand what a Donor-Advised Fund is and how it works
- Implement specific strategies to properly utilize a Donor-Advised Funds with clients
- Know when and how to discuss philanthropy with clients

Why Charitable Giving Strategies Matter for Financial Advisors





Firms that Offer Charitable Planning

Analysis of over 1,200 RIAs and family offices



6x the median
assets

[Link to Report](#)



Firms that Offer Charitable Planning

Analysis of over 1,200 RIAs and family offices



3x the median
organic growth

[Link to Report](#)



Firms that Offer Charitable Planning

Analysis of over 1,200 RIAs and family offices



“Is a **multigenerational resource** to my family”

[Link to Report](#)

What is a Donor-Advised Fund?

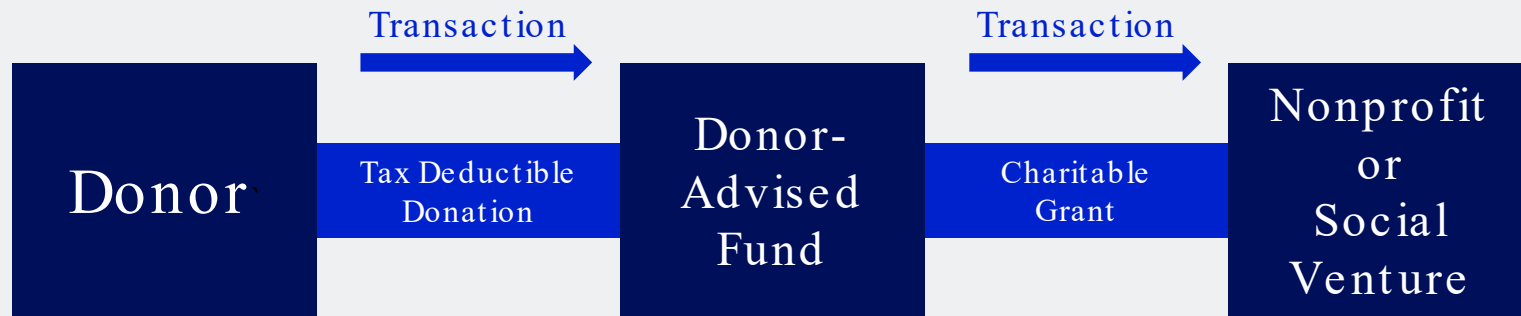


What is a Donor-Advised Fund?

A Donor-Advised Fund is a giving account established for future charitable giving.

- Donors:
 - Make a charitable contribution
 - Receive an immediate income tax deduction
 - Make charitable grants from the fund over time

What is a Donor-Advised Fund?



Donor -Advised Funds are the Most Flexible Giving Tool



**Contribute Any Type of
Asset**



**Flexible Account
Management**



**Better Giving
Opportunities**

1. Contribute Any Type of Asset

- Traditional assets
 - Cash
 - Public securities
- Non-traditional assets
 - Private business interests
 - Real estate
 - Cryptocurrency
 - Alternative assets
 - Other assets, ie. collectibles



2. Flexible Account Management

Financial Advisors prefer providers that allow them to:

- Use preferred custodian
- Choose how the assets are invested
- Charge an investment fee
- Make alternative investments

3. Better Giving Opportunities

A Donor-Advised Fund provides:

- Various funding opportunities:
 - Donations
 - Grants
 - Recoverable Grants
 - Loans
 - Equity investments
- The ability to support projects in the U.S. and overseas
- The opportunity to make impact investments

Donor-Advised Fund vs. Private Foundation



	Donor-Advised Fund	Private Foundation
Fees & Setup	<ul style="list-style-type: none"> • Immediate • Low administration fees and startup costs 	<ul style="list-style-type: none"> • Can take several months • High administrations fees and startup costs
Causes to support	<ul style="list-style-type: none"> • Domestic and international grants • Impact investments • Grants to individuals are not permitted 	<ul style="list-style-type: none"> • Domestic and international grants • Impact investments • Grants to individuals

	Donor-Advised Fund	Private Foundation
Tax benefits	<ul style="list-style-type: none"> • Cash donation: up to 60% AGI tax deductibility • Short-term capital gain property: up to 50% AGI • Long-term capital gain on property: up to 30% AGI (rolls over up to 5 years) • All securities are valued at Fair Market Value 	<ul style="list-style-type: none"> • Cash donation: up to 30% AGI tax deductibility • Short-term capital gain property: up to 30% AGI • Long-term capital gain property: up to 20% AGI (rolls over up to 5 years) • Fair Market Value for publicly traded stock • Non-public securities valued at the cost basis (no appreciation)

	Donor-Advised Fund	Private Foundation
Succession plan	<ul style="list-style-type: none"> Can name individuals, businesses, or charities as successor advisors for the DAF 	<ul style="list-style-type: none"> Successors and officers confirmed only by vote of the board
Distributions	<ul style="list-style-type: none"> No required distributions 	<ul style="list-style-type: none"> IRS requires 5% distributions assets per year
Anonymity	<ul style="list-style-type: none"> Anonymous contributions possible 	<ul style="list-style-type: none"> All contributions are made public

Strategy #1

Charitable Bunching



What is Charitable Bunching?

- Make **several years of charitable donations** at once to a Donor-Advised for a bigger tax benefit
- Get a larger tax deduction by **itemizing the donation**
- Support charities over time while using the **standard deduction in future years**

Without Charitable Bunching

A couple donates \$15,000 per year to several different charities.

Years 1-5	Without Charitable Bunching
Donation to Charities	\$15,000
State and Local Taxes	+ \$10,000
Mortgage Interest	+ \$6,000
Total Yearly Itemized Deduction	= \$31,000
Standard Deduction	- \$27,700
Additional Deduction	= \$3,300

Total donations over 5 years: \$75,000

Total tax deduction over 5 years: \$155,000



With Charitable Bunching

A couple donates \$15,000 per year to several different charities.

With charitable bunching, the donor receives a much larger tax deduction in the first year.

Year 1	Charitable Bunching
Donation to DAF	\$75,000
State and Local Taxes	+ \$10,000
Mortgage Interest	+ \$6,000
Total Itemized Deductions	= \$91,000
Standard Deduction	- \$27,700
Additional Deduction	= \$63,300

With Charitable Bunching

The donor can then claim the standard tax deduction for years 25.

Years 2-5	Tax Deduction
Standard Deduction	\$27,700
Years 2-5 tax deduction	\$110,800

Total donations over 5 years: \$75,000

Total tax deduction over 5 years: \$201,800



Charitable Bunching Case Study

Without Charitable Bunching

5 years of tax savings over the
standard deduction:

\$16,500

With Charitable Bunching

5 years of tax savings over the
standard deduction:

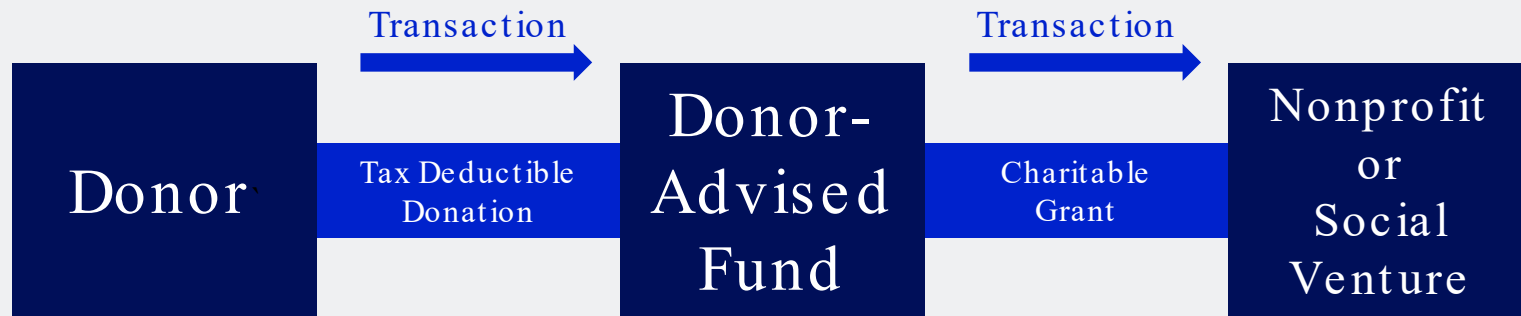
\$63,300

**More than 3x the tax savings
over 5 years**

Timing



By separating the timing of the tax deduction from the charitable gift, donors can optimize for both



Strategy #2

Gifting of Private Business





Why Donate a Business Prior to Sale?

The two major tax benefits:

1

Avoid Capital Gains
Tax

2

Income Tax Deduction



Case Study: Private Business Donation

- A retired couple is selling their debt -free business for \$10 million
- They face a 27% tax on the sale (20% capital gains + 7% state tax)
- Their advisor recommends donating \$2 million to a DAF to support their charitable goals

Case Study: Private Business Donation

	Donation <u>After</u> the Sale	Donation <u>Before</u> the Sale
Sale Price	\$10,000,000	\$10,000,000
Donation Prior to Sale	\$0	\$2,000,000
Cost Basis	\$100,000	\$100,000
Taxable Amount	\$9,900,000	\$7,900,000
Taxes	\$2,673,000	\$2,133,000
After Tax Equity	\$7,327,000	\$5,867,000
Donation After Sale	\$2,000,000	\$0
Final Equity	\$5,327,000	\$5,867,000
Gift Tax Deduction	\$2,000,000	\$2,000,000
Income Tax Savings @ 44% TB	\$880,000	\$880,000
Final Equity + Tax Savings:	\$6,207,000	\$6,747,000

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Case Study: Private Business Donation

Tax Deduction & Eliminating Capital Gains Tax

- They get an immediate tax deduction based on the Fair Market Value of the Business
- By donating \$2 million to their Donor-Advised before the sale, they avoid capital gains tax on that amount

\$2m donation to a Donor-Advised Fund saved \$540k net after taxes

Where Does a Donor-Advised Fund Fit in Discussions with Clients?



Client Focus

- Charitable Intent - start with why
- Annual Portfolio Reviews
- High Income Years
- Business Sale or Liquidity Events
- Tax and Estate Planning Discussions
- Capital Gains Management

Questions You Should Be Asking

1. Do your clients have charitable intent or are they already active donors?
2. Do your clients have a need for a tax deduction this year, but want to decide which charities they want to support over time?
3. Do your clients like the idea of a private foundation, but do not want the complexity, burden, and expense of its administration?
4. Do your clients own liquid assets (such as stock, mutual funds, etc.) with a low cost basis that they plan to sell?
5. Do your clients plan to sell a private business interest or an entire company?

Recap



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Thank you

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