

Charitable Gift Funds Offer Flexible Alternative to Private Foundations ©

Paul Katz , Houston Business Journal

Two forms of charitable gift funds -- donor-advised funds and pooled-income funds -- provide ways for investors to manage their charitable giving and receive current income-tax deductions without spending the extra time and money to set up private foundations.

Unlike private foundations, there are no start-up fees for donor-advised or pooled-income funds. Typically, there is no annual contribution required at the account level. There are no excise taxes. And investors can choose to remain anonymous.

For these reasons, donor-advised or pooled-income funds may be excellent programs for investors who are interested in philanthropy -- particularly affluent investors seeking current income-tax deductions, those who regularly contribute to charity or those who want to reduce estate taxes for their heirs.

Because donor-advised and pooled-income funds are owned and controlled by the nonprofit organizations that offer them, any contributions investors make to these tax-exempt organizations are immediately tax deductible within their adjusted gross income percentage limits. This applies to contributions of cash or appreciated securities. Investors would receive income tax deductions only for the contribution amount, not for the growth (if any) of the donor-advised or pooled-income funds.

Once the initial contributions are made, investors have the right to make contributions or recommendations about when and how much will be given to specific non-profit organizations. They can even designate their donations as separate funds established in their family names.

Donor-advised funds may be a cost-effective and tax-advantaged philanthropic giving solution for many investors. In addition, they simplify and streamline charitable giving by creating individual accounts into which investors may contribute and make recommendations for grants as small as \$250 to nonprofit organizations.

A donor-advised or pooled-income fund account costs nothing to establish, there are no out-of-pocket expenses to maintain, no legal costs and no transaction fees (although, the funds typically have a management fee related to the management of the product). In addition, a donor-advised or pooled-income fund offers many benefits, including:

- Immediate income-tax deductions. Investors may be eligible to receive immediate income-tax deductions and grants are made on their timetable and recommendations.
- No capital gains taxes. Contributions of long-term appreciated securities held for more than one year are not subject to the capital gains tax if investors are within specific AGI limits. Contributions that exceed their AGI limits for the year can be carried over and

deducted in the next succeeding five years.

- No estate taxes. Assets contributed (and future appreciation) to the pooled-income funds are not included in the value of investors' estates, which means they will not be subject to estate taxes.
- Growth potential. Investor contributions may appreciate in a pooled-income fund before it is distributed to their charities, which may provide greater support to the investors' favorite charities over the long-term.
- A tradition of giving. Pooled-income funds give investors the opportunity to encourage charitable giving by their heirs. By naming an account successor, investors can continue the tradition of giving for many generations.
- Income payments for life. By contributing to pooled-income funds, investors and their chosen income beneficiaries will receive proportionate shares of any income generated by the funds' investments for the duration of their lives.

Investors who are considering a donation to a nonprofit organization, should seek the expert advice of both their tax and financial advisers.