

Maximizing the Benefits of Donor-Advised Funds

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Overview

Key discussion areas in making charitable giving decisions

- When to use a donor-advised fund vs. a private foundation
- How to convert a private foundation to a donor-advised fund
- Strategies to maximize the tax benefits of using DAFs
- Innovative giving vehicles, such as flexible endowments and restricted donor-advised funds
- Engaging the next generation with charitable giving

Host and Panelists



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Distinctive Features of Fiduciary Trust Charitable

Our offering is designed for donors who value personal service, expertise, and flexibility

INTEGRATED PERSONAL SERVICE

- Dedicated, experienced advisor
- Service integrated with other accounts
- Simple grant request process
- Online and mobile account access

SUSTAINABLE PRACTICES

- Sustainable investment options
- Low carbon impact initiatives
- “Positive Philanthropy Pledge”
- Independent board and auditors



EXPERTISE

- Administrative services provider with \$20B in assets under supervision (Fiduciary Trust Company)
- Charitable advice integrated with wealth planning
- Conversions to donor-advised funds
- Giving strategy and measurement

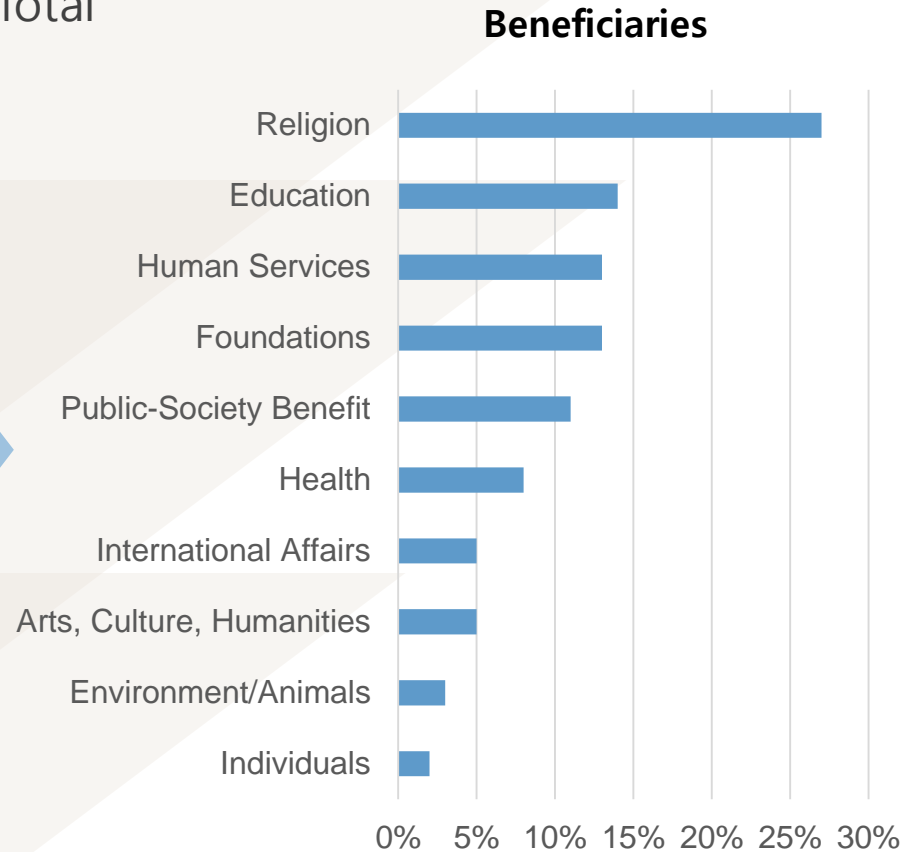
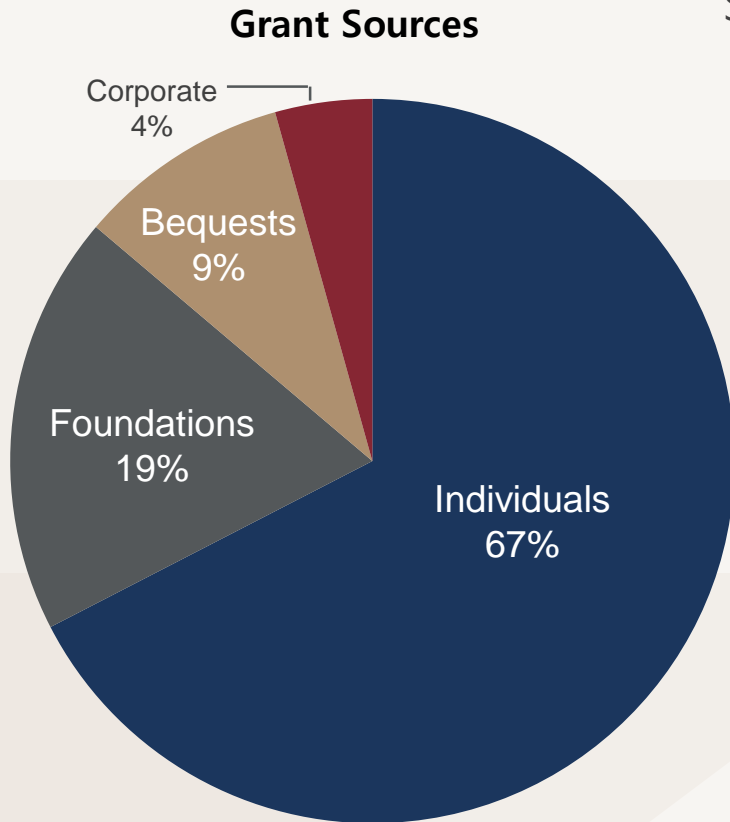
FLEXIBILITY AND INNOVATION

- Tailored investment approach with a broad universe of options
- Accept a variety of illiquid assets
- International grant capability
- Custom DAF features available

U.S. Charitable Giving, 2021

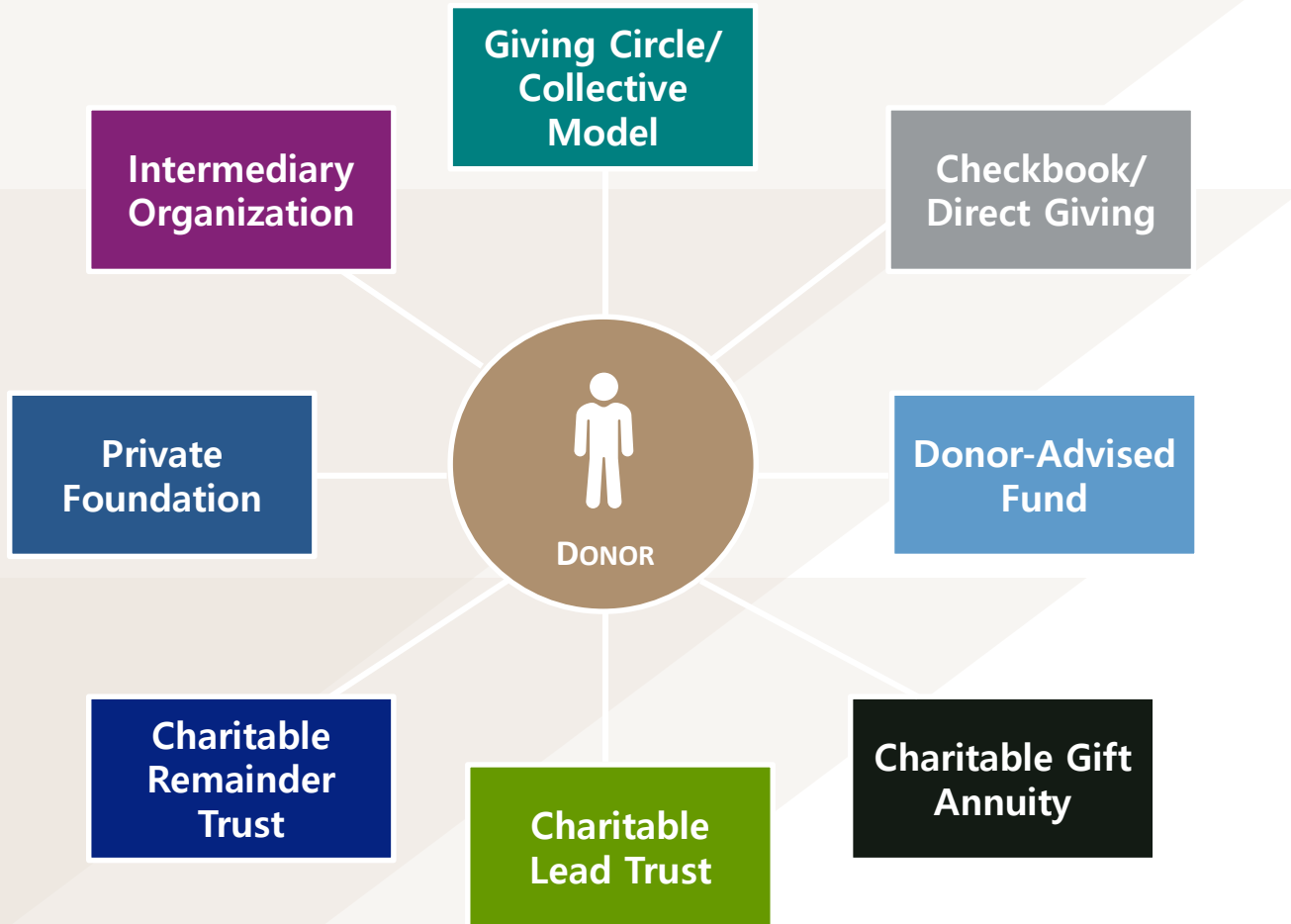
The vast majority of giving is from individuals and foundations, and benefits a variety of causes

\$485B Total

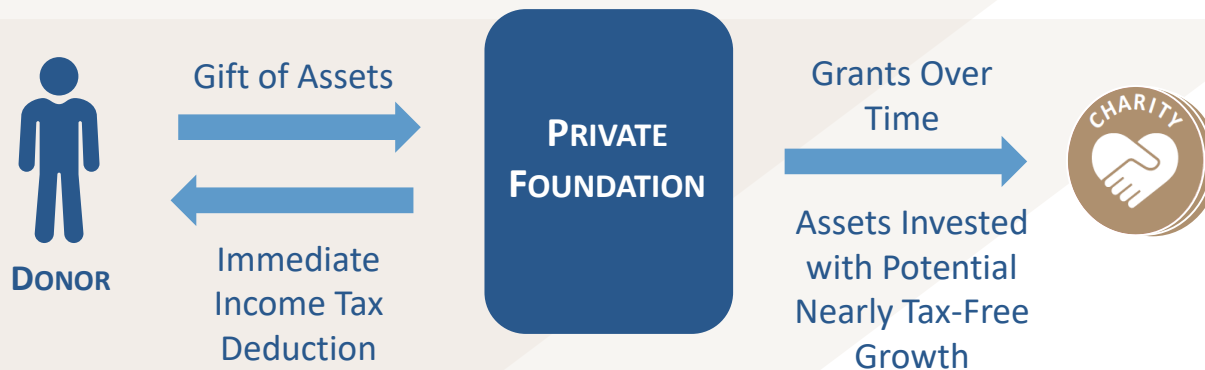


Source: Giving USA Foundation™, The Giving Institute, and the Indiana University Lilly Family School of Philanthropy, Fiduciary Trust Company.

How Individual Donors Can Approach Giving

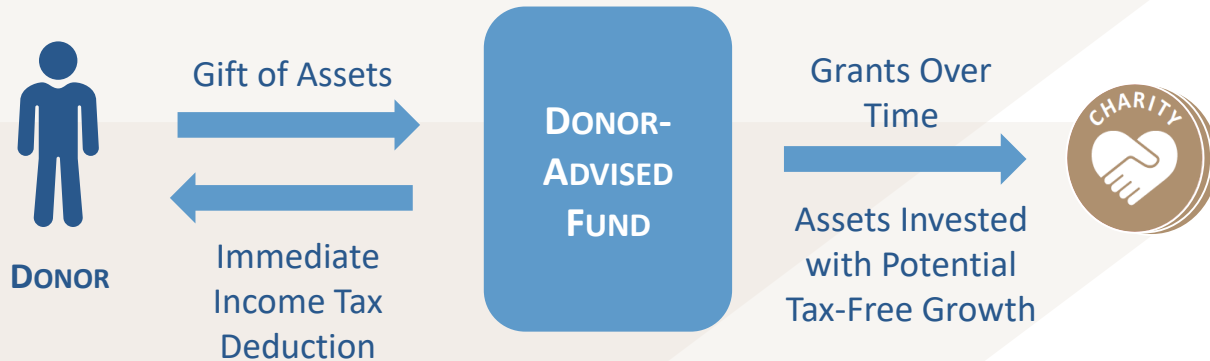


How a Private Foundation (PF) Works



- Foundation board has legal control over assets and distribution decisions

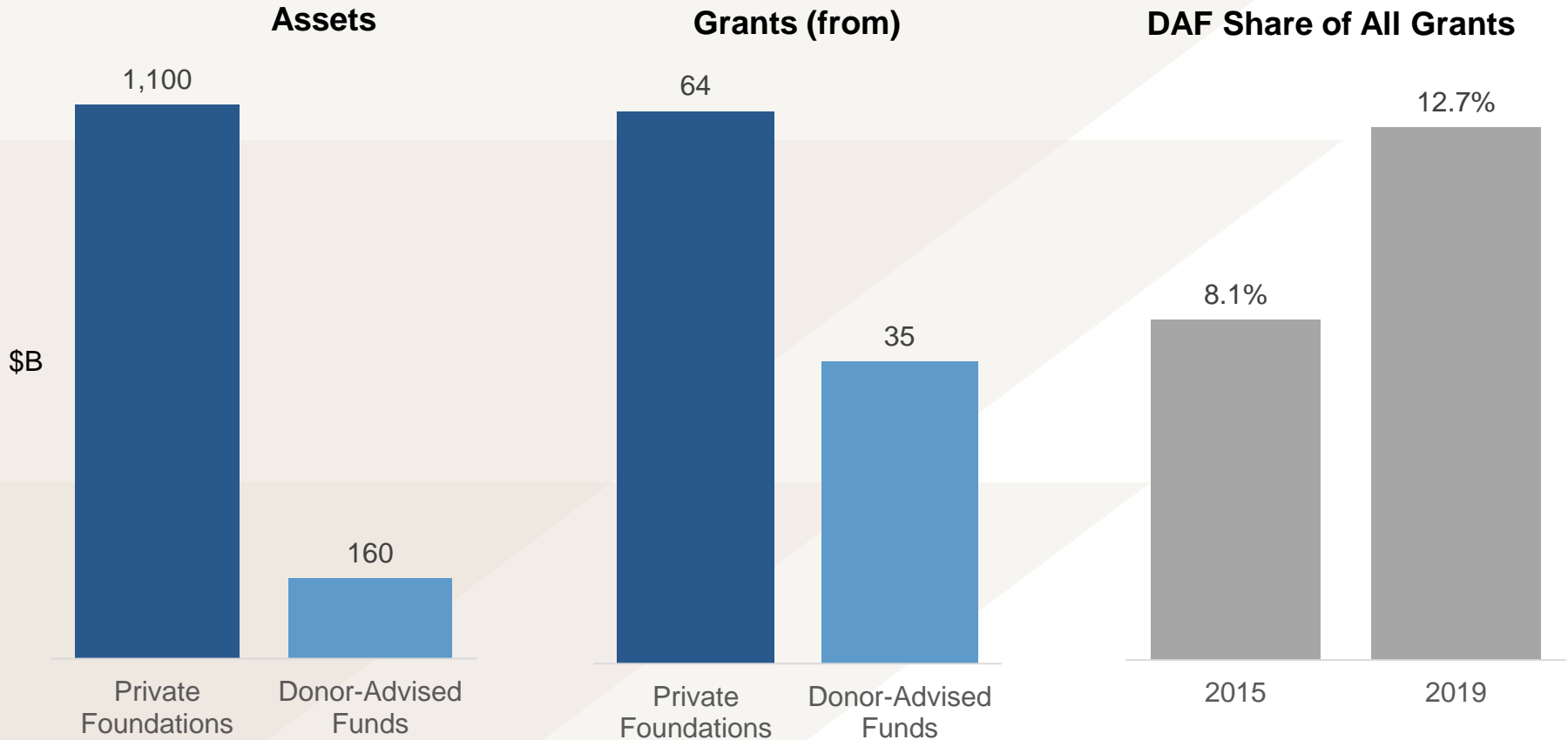
How a Donor-Advised Fund (DAF) Works



- A donor-advised fund is a charitable giving vehicle sponsored by a public charity, such as Fiduciary Trust Charitable
- Donor (or designated charitable advisors) can recommend grants from the account to IRS-qualified charities at any time
- Once the donor contributes to the fund, the donor no longer has legal control over the assets

Relative Role of DAFs and PFs

While smaller in size than private foundations, DAFs are growing in importance



Source: National Philanthropic Trust Donor-Advised Fund Report 2021, Fiduciary Trust Charitable. Assets and grants based on 2020 data.

Donor-Advised Funds & Private Foundations Differences (1)

Area	Donor-Advised Funds	Private Foundations
Requirements to Set Up and Operate	Simple	Complex
Administrative Responsibilities	None, other than making periodic grant recommendations	Regular board meetings, potentially hiring staff, oversight of foundation's activities, including tax and other filings
Income Tax Deduction	<p>Cash gifts: 60% of Adjusted Gross Income (AGI)</p> <p>Securities or other assets: 30% of AGI</p> <p>Appreciated, non-publicly traded assets held over one year receive a deduction at fair market value</p>	<p>Cash gifts: 30% of AGI</p> <p>Securities and other assets: 20% of AGI</p> <p>Appreciated non-publicly traded assets held over one year may only receive a deduction at their basis</p>
Investment Options	<p>Many DAFs have a limited set of proprietary funds as investment options;</p> <p><i>(Fiduciary Trust Charitable uses investment advisors that typically have variety of investments options from multiple investment managers.)</i></p>	High degree of flexibility

Donor-Advised Funds & Private Foundations Differences (2)

Area	Donor-Advised Funds	Private Foundations
Excise Tax on Investment Income	None	1.39% annually
Other Expenses	Administrative and investment management fees, typically based on assets under management	Legal expenses, any foundation employee compensation, investment management, return filing, other operating expenses
Allowable Grants	IRS-qualified charities only Can fund a scholarship at another charity if donor/charitable advisor does not select recipient or otherwise have control	IRS-qualified charities as well as direct gifts to individuals, such as scholarships or other charitable purposes (with special IRS approval)
Minimum Distributions	Require some distributions every few years with no set minimum amount <i>(FT Charitable requires grants at least every two years)</i>	5% minimum (some expenses count toward distributions)

Donor-Advised Funds & Private Foundations Differences (3)

Area	Donor-Advised Funds	Private Foundations
Donor Disclosure	Individual DAF account assets and donors are not disclosed Anonymous grants permitted	Foundation assets, board members, and grants are publicly disclosed
Control	Donors and advisors they designate can recommend grants and investments, but the sponsoring organization has legal authority over decisions	Foundation board has full control over investment and grant decisions
Risk	Donors and charitable advisors have limited risk Primary risk is the potential tax implications of receiving an impermissible benefit	Foundation board members have fiduciary responsibility and risk for foundation oversight and compliance with changing laws and regulations

Using DAFs with Private Foundations

- **Anonymity:** Giving from a DAF can remain 100% anonymous; Assets in a PF and grants are subject to public disclosure
- **Special Projects/Flexible Grantmaking:** A DAF could be used to grant to non-profits or issue areas that fall outside of a foundation's mission statement
- **A Way to Engage the Next Generation:** Some families consider funding DAFs for next gen donors so that they can start to actively grant and become engaged in their own philanthropic interests
- **Legacy Planning:** For families that recognize that a PF may be burdensome for future generations
- **Ability to Transfer PF Funds to a DAF:** Donors have the ability to move funds from a private foundation to a DAF. Presently, distributions from a PF to a DAF can count toward the PF's 5% distribution requirement

Regulatory Guidance and Proposed Legislation

IRS Guidance

IRS Notice 2017-73

- Event tickets – not allowed, even if donor pays non-deductible portion
- Donor pledges – allowed, if follow certain rules
- Look-through mechanism to prevent using DAF to circumvent public support test

Proposed Legislation

Accelerating Charitable Efforts (ACE) Act – bipartisan – June 9, 2021

- Goal to ensure funds distributed out of DAFs more quickly

Key Steps to Convert to a DAF

1. Obtain conversion approval from the foundation board
2. Request conversion approval from the state regulators and the court, if necessary
3. Establish donor-advised fund and name advisors
4. Establish a foundation reserve for final expenses
5. Transfer assets to the donor-advised fund(s)
6. Complete final foundation tax filings. The foundation will need to complete the final IRS form 990-PF and the appropriate state filings.

Converting a Restricted Purpose Entity to a DAF

While the AG's office or courts can permit conversions, they typically seek to maintain some restrictions

Restricted Purpose
Private Foundation
or Public Charity



Traditional
Donor-Advised
Fund

Converting a Restricted Purpose Entity to a DAF

While conversions are permitted, they typically require maintaining some level of restriction

Restricted Purpose
Private Foundation
or Public Charity



Restricted
Donor-Advised
Fund™

Fiduciary Trust Charitable was recognized with a Stevie Award® for innovation
with the Restricted Donor-Advised Fund™

Funding an Endowment – The Traditional Approach

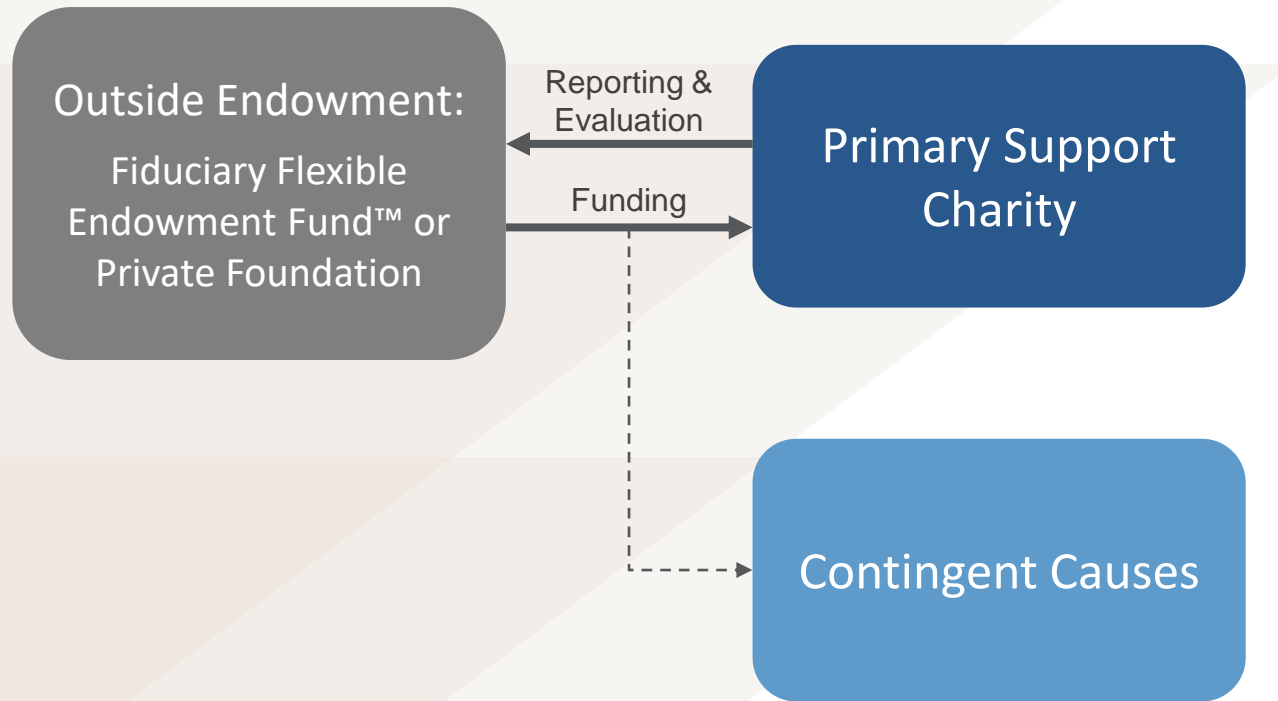
Option One: Donate Funds Directly to the Target Charity

Primary Support
Charity

Creating a Flexible Endowment

Funds distributed to charities based on meeting criteria determined ahead of time

Option Two: Establish an Endowment Outside the Target Charity

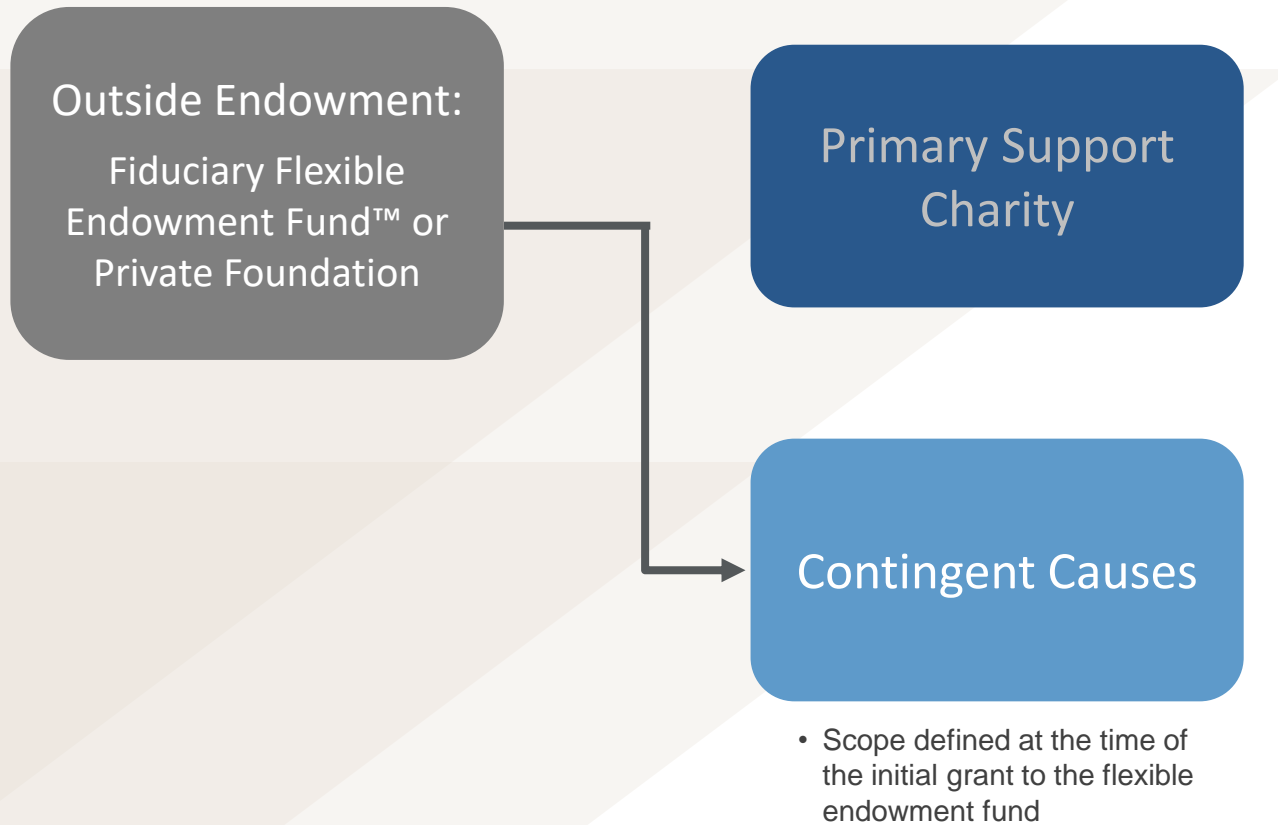


- Scope defined at the time of the initial grant to the flexible endowment fund

Creating a Flexible Endowment

Funding redirected to alternative causes if primary charity is no longer eligible

Option Two: Establish an Endowment Outside the Target Charity

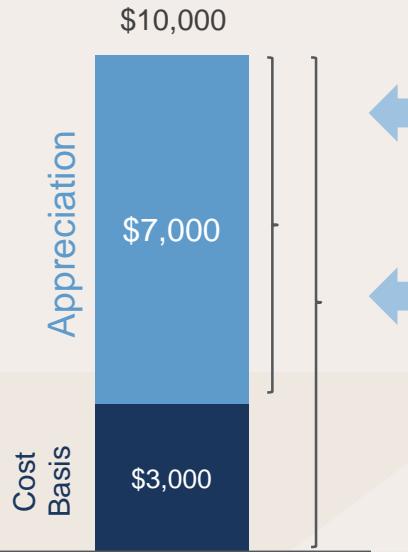


Donating Appreciated Stock

Donations of appreciated stock to a DAF may avoid capital gains tax and qualify for a deduction when owned for at least one year

Example: \$10K Gift of Apple Stock

Value of Gift



1. Avoid paying capital gains tax on appreciation (up to 23.8% federal tax and any applicable state and local tax)



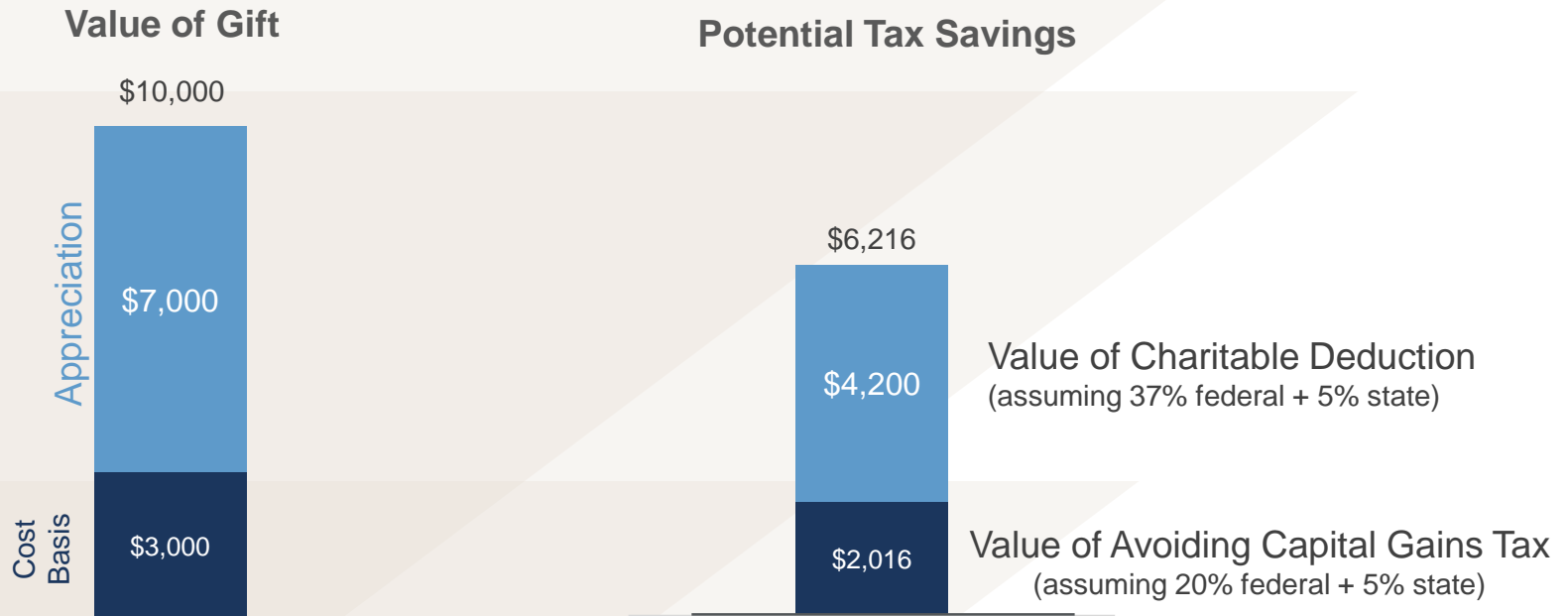
2. Receive a charitable tax deduction on the total gift amount if itemizing deductions (up to 37% federal and any applicable state and local tax)

Note: Federal tax rates based on 2023 tax schedule. Donors should consult their tax and wealth advisors before making charitable giving decisions.
Source: IRS, Fiduciary Trust.

Donating Appreciated Stock

Donations of appreciated stock to a DAF may avoid capital gains tax and qualify for a deduction when owned for at least one year

Example: \$10K Gift of Apple Stock



- Assets contributed to a charitable beneficiary, such as a DAF, also reduce your taxable estate
- Proceeds from donated securities can be invested and have the potential to grow tax free and then distributed to charities

Note: Federal tax rates based on 2023 tax schedule. State and local tax schedules vary by jurisdiction. Five percent capital gains and charitable deduction tax rates used for illustrative purposes. Donors should consult their tax and wealth advisors before making charitable giving decisions. Source: IRS, Fiduciary Trust.

Charitable Deduction Bunching Example

Scenario: Couple who gifts \$20,000 to charities annually

Federal Income Tax Deductions

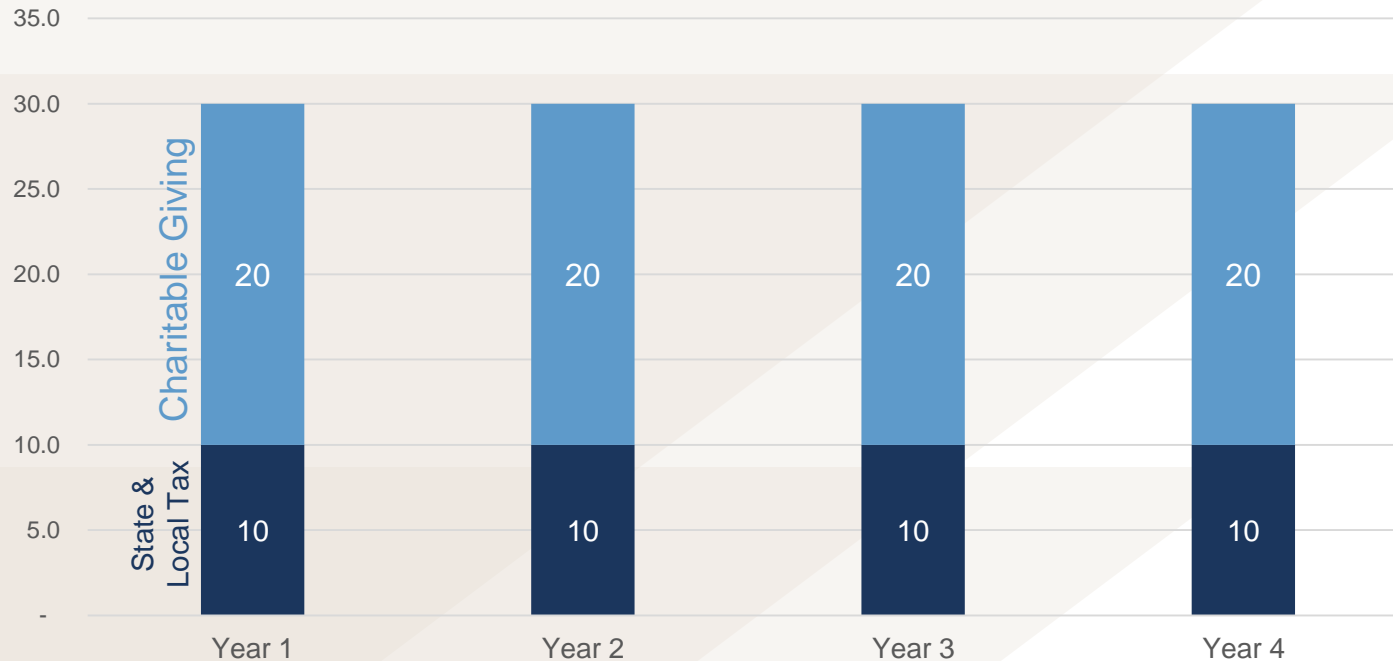


Note: Example based on married couple filing jointly with \$10,000 in allowable federal itemized deductions before any charitable deductions. Assumes there are no investment returns or expenses in the donor-advised fund and that itemized charitable deductions are fully deductible, given federal tax law charitable deduction limits. Non-charitable itemized deductions and the federal standard deduction are assumed constant throughout the four years. Example based on 2023 federal tax code as of November 1, 2022. Donors should consult their tax and wealth advisors before making decisions about gift deduction bunching. Source: Fiduciary Trust.

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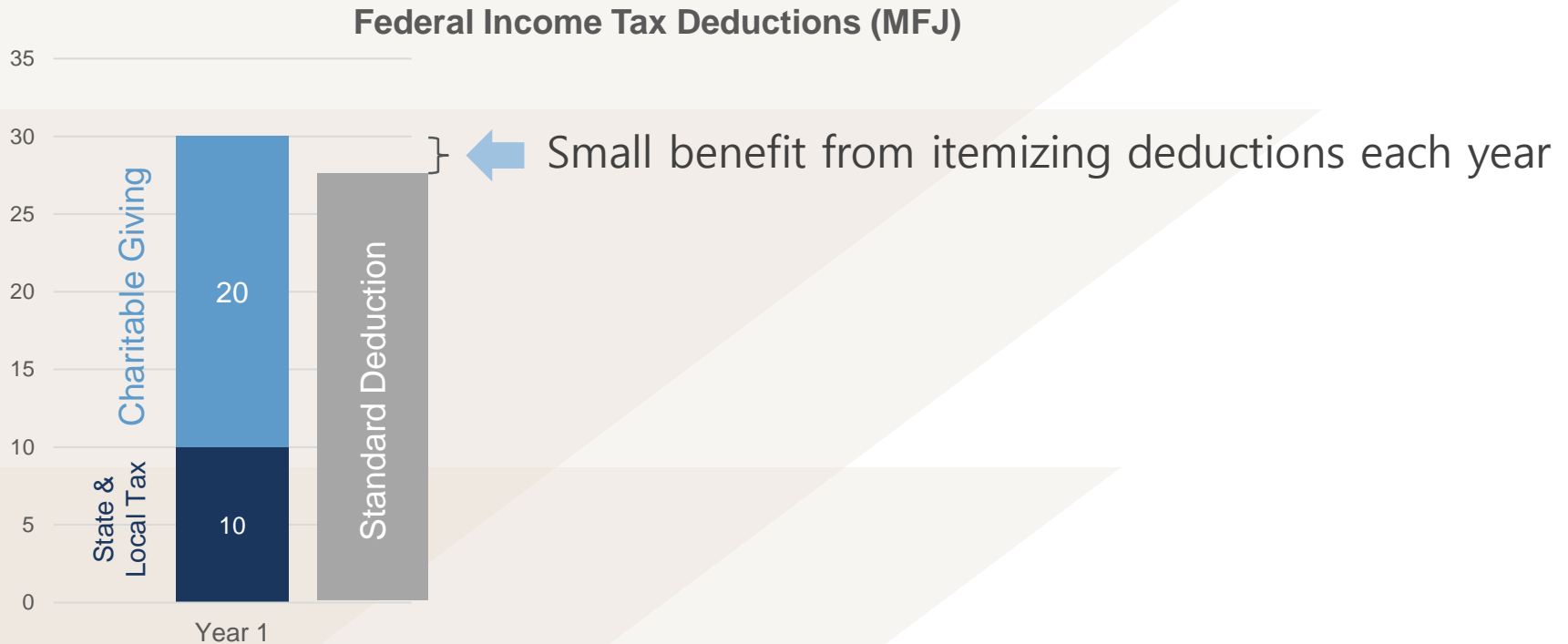


Total Federal Tax Deductions Over 4 Years:
\$120,000

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Charitable Deduction Bunching Example

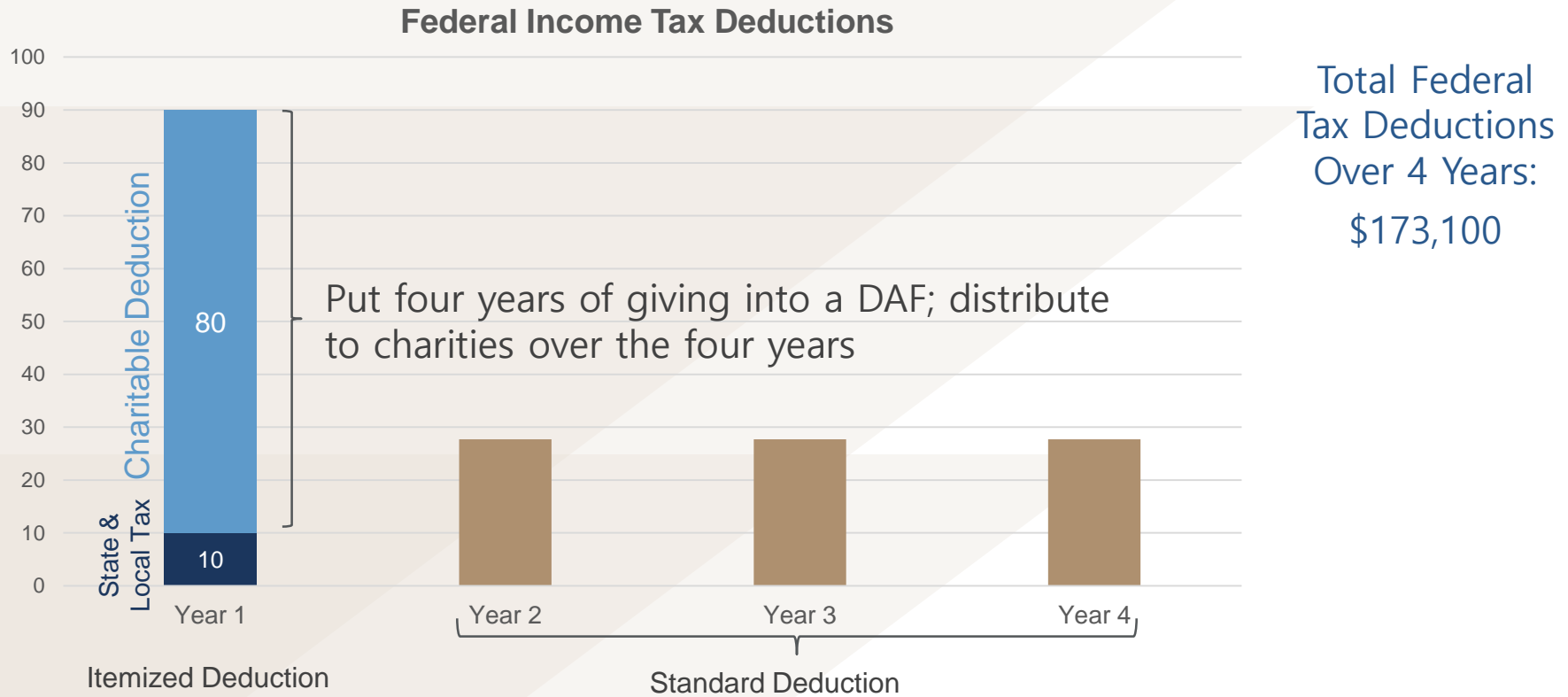
Given the \$10K cap on state & local tax deductions, charitable giving is a key itemized deduction for those without mortgages



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Charitable Deduction Bunching Example

Putting multiple years of giving into a DAF enables standard deduction for a few subsequent years

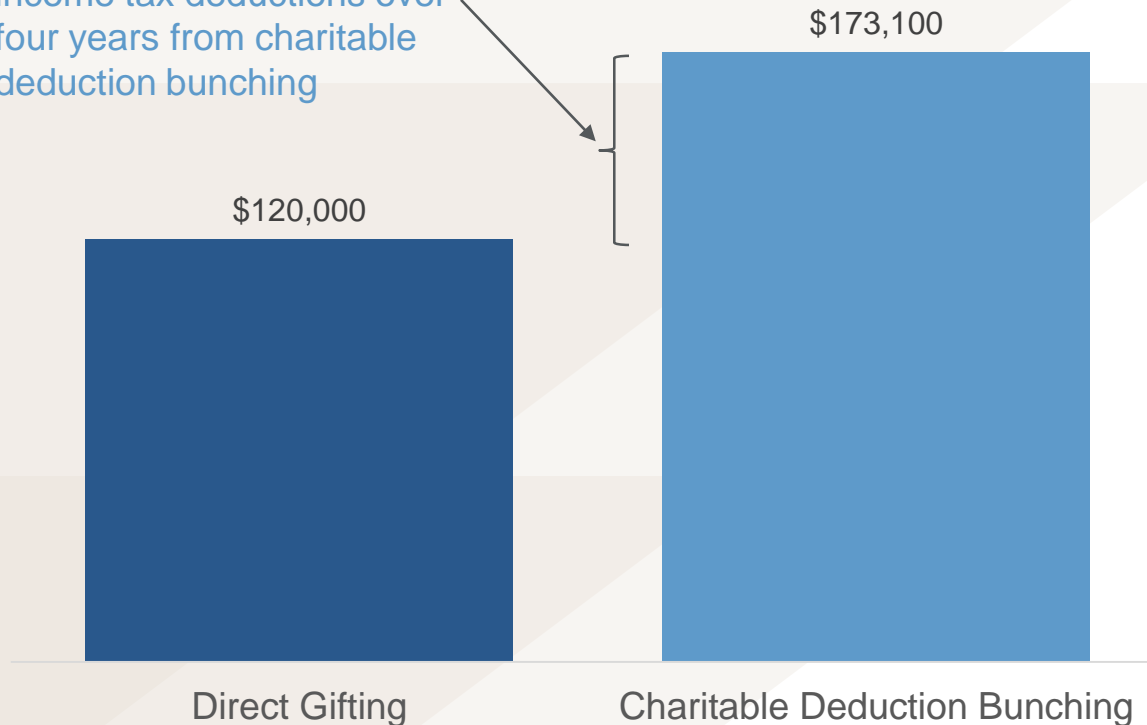


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Charitable Deduction Bunching Example

Tax savings potential from charitable deduction bunching

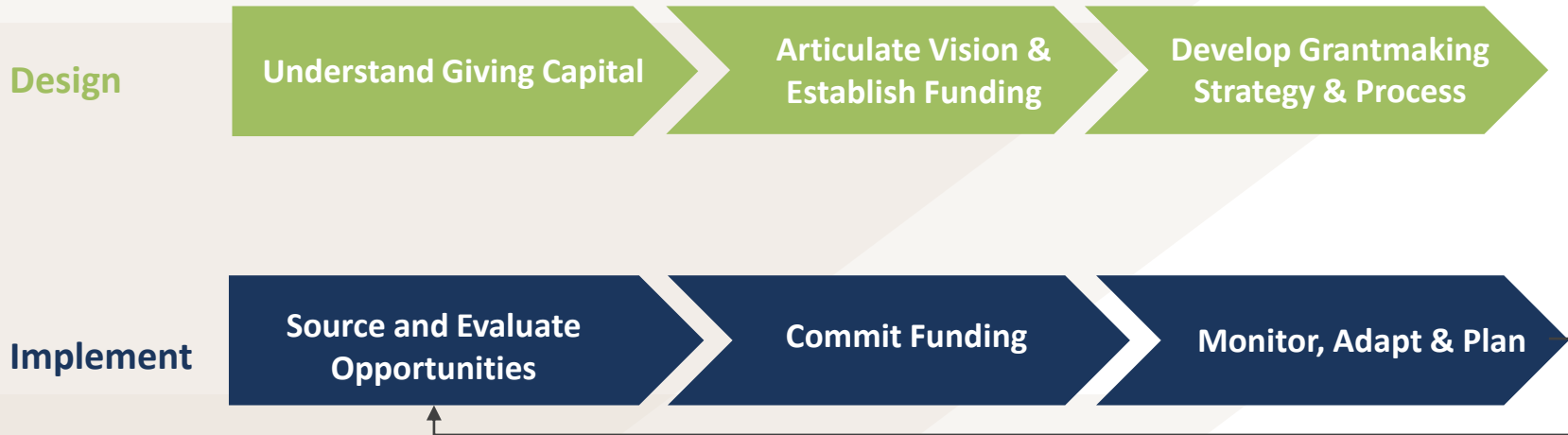
\$53,100 in additional federal income tax deductions over four years from charitable deduction bunching



Note: Example based on married couple filing jointly with \$10,000 in allowable federal itemized deductions before any charitable deductions. Assumes there are no investment returns or expenses in the donor-advised fund and that itemized charitable deductions are fully deductible, given federal tax law charitable deduction limits. Non-charitable itemized deductions and the federal standard deduction are assumed constant throughout the four years. Example based on 2023 federal tax code as of November 1, 2022. Donors should consult their tax and wealth advisors before making decisions about gift deduction bunching. Source: Fiduciary Trust.

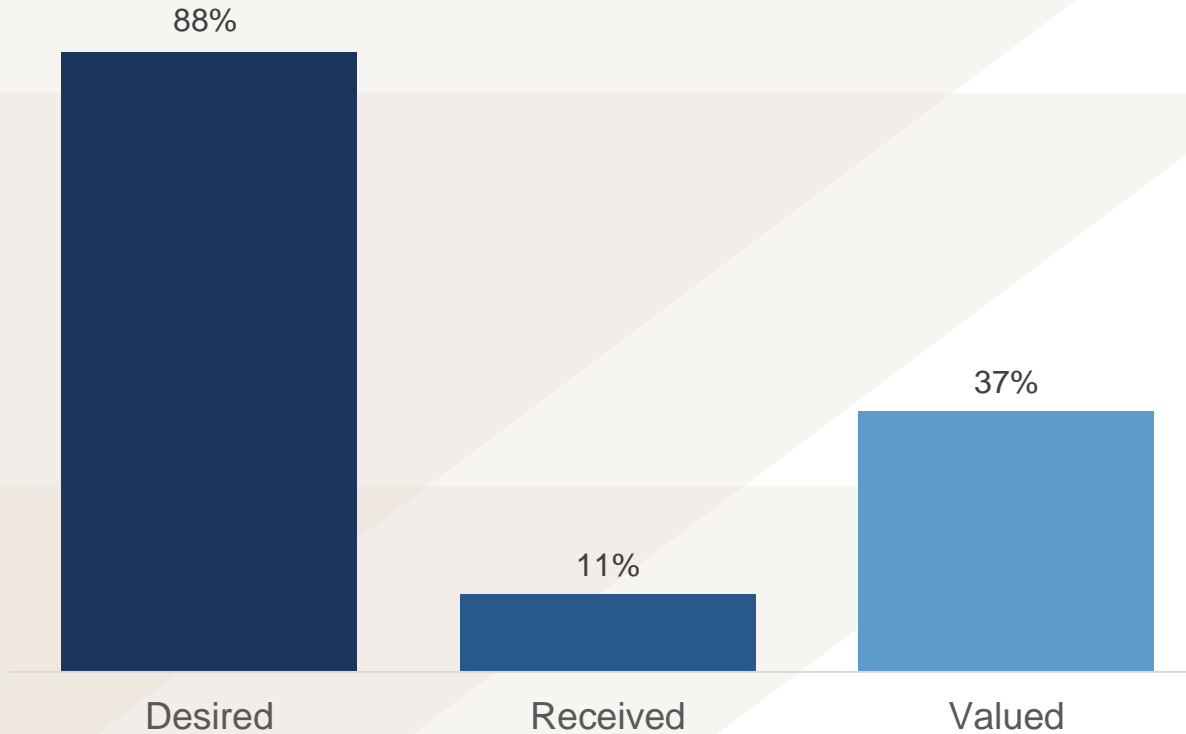
Strategic Grantmaking Approach

A thoughtful approach can lead to greater charitable impact and ensure you are a highly effective donor



Investor Interest in Charitable/Philanthropic Planning

Engaging clients in charitable planning discussions can address a key need



Source: Spectrem Group 2022, Fiduciary Trust Company. Based on investors with \$3M – 25M in investable assets.

Engaging The Next Generation

Giving season is an excellent time to talk to family members about giving

- Encourage children, teens and young adults to get involved in volunteerism
- Consider organizing a group for a volunteer day or even start a family tradition of giving back together, i.e., gathering coats for a clothing drive, delivering meals to the elderly, etc.
- Teach children the concept of *Give, Save, Spend* with a piggybank or jars
- Offer older children and teens the chance to identify a non-profit they would like to give to from a family DAF for example. Come together around a table to discuss!
- Set-up a formal meeting for a family to identify a collective vision or mission statement for their giving, discussing what values are important to each other and as a family

Q & A



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