

# Popular donor-advised funds benefit donors and charities

More than ever, Americans are seeking ways to help others. And a growing number of individuals are going beyond the traditional means of supporting charities by establishing their own charitable giving legacy through donor-advised funds.

Donor-advised funds, which allow individuals to easily establish a charitable giving account, have soared in popularity during the past few years.

According to a 2000 survey by The Chronicle of Philanthropy, assets in donor-advised funds jumped from \$2.4 billion to \$7.5 billion between 1995 and 1999, and individual accounts more than doubled from 16,242 to 36,308 during that time.

Unlike trusts and private foundations, donor-advised funds typically cost less to set up, take less time to administer and offer similar tax advantages.

"Most donor-advised funds are designed for individuals or families with assets of \$250,000 or more who wish to create a charitable legacy without the administrative hassle," says Craig Brimhall, vice president of American Express Funds. "Once you initially fund the account, your future involvement is as great or as little as you want it to be."

## What Is a Donor-Advised Fund?

A donor-advised fund is a charitable giving product through which an individual makes irrevocable contributions to a non-profit organization that administers the program. The donor advises the non-profit how to invest the money in designated pools of mutual funds with different levels of risk.

The donor can then advise the non-profit to make grants from the account to qualified charities. The contributions are tax-deductible in the year the non-profit receives the assets, and growth in the account is tax-free.

A donor-advised fund is different from a foundation. With a donor-advised fund, donors can immediately deduct contributions of up to 50 percent of their adjusted gross income for cash donations in the year the fund receives the donation and up to 30 percent of adjusted gross income for gifts of appreciated assets. By comparison, deductions for cash and appreciated assets given to private foundations are 30 percent and 20 percent, respectively. Unused contribution deductions can be carried over for up to five years.

Unlike the requirements for forming a private foundation, creating a donor-advised fund does not entail start-up costs, excise taxes or annual tax-reporting obligations. And annual expenses, which are often substantial with a private foundation, typically range from 1.3 percent to 3 percent with a donor-advised fund.

Once an account is funded, any potential asset growth in the account is tax-free, enabling the donor to make potentially larger future charitable gifts. Donors can make charitable gifts from the account anonymously, if they wish, and can name successors and counselors to the account who would be able to make grants from the account after the original donor's death.

## Choosing a Donor-Advised Fund

Because they require donors to make an irrevocable gift, donor-advised funds typically request that a donor has the demonstrated means to fund an account, with common initial funding requirements set at \$10,000 or more.

However, that amount is typically far less than the assets required to start a private foundation.

When comparing donor-advised funds, Brimhall recommends potential donors pay particular attention to a fund's:

- Investment options. Are there multiple investment options and do they seem compatible with your goals for asset growth? Are you able to recommend how your account assets are invested?

- Expenses. Do annual administrative expenses and fees seem reasonable?

- Reporting process. What type of records will you receive and how often?

- Donation process. How simple is it to recommend a charitable donation from your account?

Who can assist you?

## Funding a Donor-Advised Fund

Donor-advised funds can be ideal for individuals who have recently received a large amount of cash, such as through an inheritance or the sale of a business, or for those with substantial appreciated securities.

Individuals who don't have sufficient assets to start a donor-advised fund, but who want to establish a charitable legacy,

may wish to pool their funds with family members or friends to create a sufficiently large account.

Even with the recent fluctuations in the stock market, millions of Americans hold appreciated securities, making them potential candidates for opening a donor-advised fund. And philanthropy continues to grow. According to Giving USA, a leading source on national charitable giving, individual Americans

gave 6 percent more to charity in 2000 than they did in 1999: An astonishing \$152.07 billion.

"Americans are very generous in their charitable giving, as evidenced by the outpouring of generosity following the Sept. 11 attacks as well as their continued commitment to local and national causes and organizations," Brimhall says. "Donor-advised funds are an excellent option for those looking to incorporate charitable giving into their com-

prehensive financial plan."

To learn more about the tax advantages of donor-advised funds, check with your tax advisor. If you'd like to determine if a donor-advised fund is potentially appropriate to your charitable and financial goals, work with a knowledgeable financial advisor.

Contributions to the American Express Charitable Giving Program are irrevocable gifts made to the National Philanthropic Trust, a public charity. Individu-

als considering contributions to the Program should consult their legal or tax advisors. Information about fees and expenses is available from your American Express financial advisor.

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