

TRUST CONNECTION



A Monthly Report on Trust News and Information

Inlet Private Wealth & Trust takes the time to learn your financial aspirations, evaluate your personal circumstances and then provide honest, independent advice. Working together we can build a strong foundation by providing solid trustee and investment management solutions that helps protect your wealth and provide peace of mind for the future of your estate.

Inlet Private Wealth was founded and structured to best serve its clients. We believe that effective wealth management is a deeply personal process, one that must be objective, engaged and based on each client's unique goals. Clients deserve tailored solutions, and we work collaboratively with our clients to achieve their unique financial objectives.

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Charitably Inclined: Donor-Advised Funds

Since 1931, donor-advised funds (DAFs) have been offered by local community foundations and more recently have become available through numerous broker-sponsored charitable gift funds. They are something akin to a marriage between a private foundation and a mutual fund.

Generally, a DAF is a separately identified fund or account that is maintained and operated by a section 501(c)(3) organization, which is called a sponsoring organization. Each account is composed of contributions made by individual donors. Once the donor makes the contribution, the organization has legal control over it. However, the donor, or the donor's representative, retains advisory privileges with respect to the distribution of funds and the investment of assets in the account.

One of the main benefits of a DAF is it allows individuals with philanthropic intent to have their charitable assets professionally managed and distributed to desired causes at a fraction of the cost of a private foundation. But lower cost is only one of many benefits. DAFs also offer a number of creative financial planning opportunities.

Chief among the benefits is their tax deductibility. Contributions to a donor-advised fund are tax-deductible in the year they are made, and the limit on deductibility is quite large. Individuals can donate up to 60% of adjusted gross income (AGI). This creates a meaningful planning opportunity in years where an individual has a windfall that creates a big bump up in taxable income. Contributing to a DAF can help mitigate the tax burden of that one-time event.

The tax-deductibility of contributions made to a DAF can also be leveraged. This leverage is achieved by contributing highly appreciated assets. The deduction on low-cost-basis property contributed to a fund is determined by its current value, not its cost. So, the donor receives a double benefit: a larger deduction and no capital gain on the property's appreciation when the property is sold.

Even though the deduction limit on property is lower than cash (30% of AGI), most community foundations and broker-sponsored charitable gift funds offer great flexibility regarding the types of property that can be donated. For example, many charities allow fund holders to donate an interest in a privately held business, the cash value of whole-life insurance policies, artwork, collectibles, automobiles, livestock, and even Bitcoin.

DAFs also provide great estate-planning opportunities. Assets contributed permanently leave the donor's estate, so they aren't subject to estate taxes. With the lifetime exclusion currently at more than \$11 million, this offers families lots of flexibility to use a DAF in their planning. Donors can also use their annual gift tax exclusion to make contributions to their fund. This means a married couple can each contribute up to \$15,000 — for a total of \$30,000 — every year. And because assets in a DAF are allowed to grow tax-free, the family can create a lasting legacy.

For families with charitable intent and a desire to pass that value on to future generations, a DAF provides the opportunity for children and grandchildren to be involved in the decision-making process.

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As its name implies, a DAF gives the donor the ability to advise the charity on how to use the money in the fund. Involving children in this process teaches them they can effect change to improve and strengthen their local community, support the arts, raise educational standards, fight disease or provide relief to victims of war or natural disasters. It can also prepare them to take the helm in adulthood.

A well-funded DAF often will outlive its benefactor. As a result, the donor's heirs will be able to direct gifts during their lifetimes as well. So, while contributions made to a DAF provide an immediate benefit in the form of a current-year tax deduction, they can also provide long-term gifting opportunities that last for more than one generation.

In terms of comprehensive financial planning, there are few strategies that provide the many and varied opportunities one gets from a DAF. Not many charitable vehicles provide the same funding flexibility regarding the types of assets that can be donated. Fewer offer donors the ability to be involved in how their contributions are used, and still fewer provide the context to help teach heirs the value of philanthropy.

As a result, the DAF is a remarkably useful tool to help carry out the donor's charitable intent as a component of his or her unique financial planning objectives. In many cases, including a DAF as part of a comprehensive financial plan can provide both leverage and flexibility to help an investor achieve long-term, goals-based investment outcomes.



A LOCAL TRUST SOLUTION

Call us today to learn more about working with Inlet Private Wealth & Trust.
For information and assistance contact us at:

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