The donor-advised fund

Wealth Management

Charitable giving can be a powerful way to create a legacy and carry the family name into the future. It also offers a financial tool for family estate planning and tax management.

One charitable giving vehicle that is popular with financially successful individuals and families is the donor-advised fund (DAF). Choosing a DAF to help accomplish your charitable goals may offer you an easy way to make significant gifts over a long period of time—while enjoying significant tax advantages. And unlike a private foundation, a DAF may require less money, time and legal/administrative assistance to establish and maintain.

The donor-advised fund: what is it?

A DAF is often used by cost-conscious donors or by donors who wish to maximize their current income tax deductions. It is a gifting vehicle created with a parent organization such as a community foundation or another qualified 501(c)(3) nonprofit organization. The parent organization provides a document, normally free of charge, in exchange for an irrevocable relationship. While you may choose what charity to support, you have few responsibilities beyond donating funds and suggesting how they are used. The parent organization will provide you with options for the investment component, as well as the complete administration of the fund without the paperwork and start-up expenses. Contributions of cash can be deducted up to 60% of adjusted gross income (AGI). Appreciated securities (marketable securities are valued at fair market value) are usually limited to 30% of AGI. A five-year carry-forward of any remaining deduction is available.

How does it work?

Funding your account is fairly straightforward. First, you sign a letter of understanding, which establishes the account, names it and recommends an investment strategy. You can choose an endowed fund, which invests your contribution in perpetuity and is allowed to distribute earnings only—helping create a lasting memory of your philanthropic goals. Or you can choose a non-endowed fund, which allows you or your designee to make distribution recommendations up to the entire account balance (principal and earnings). Next, you contribute the required minimum amount of assets, which may include cash, marketable securities and other types of assets, depending on the fund. The required minimum contribution varies from fund to fund. However, it is often less than the minimum contributions required by private foundations.

Throughout your lifetime, the DAF allows you or your designee to make ongoing, non-binding recommendations to the fund regarding how much, when and to which charities grants from the fund should be made. You or your designee can also offer advice to the fund as to how contributions should be invested.

Plus, the DAF allows you to make additional contributions from year to year, which helps you generate additional income tax deductions when the transaction is completed. This is one of the key benefits a DAF may offer you during your lifetime.

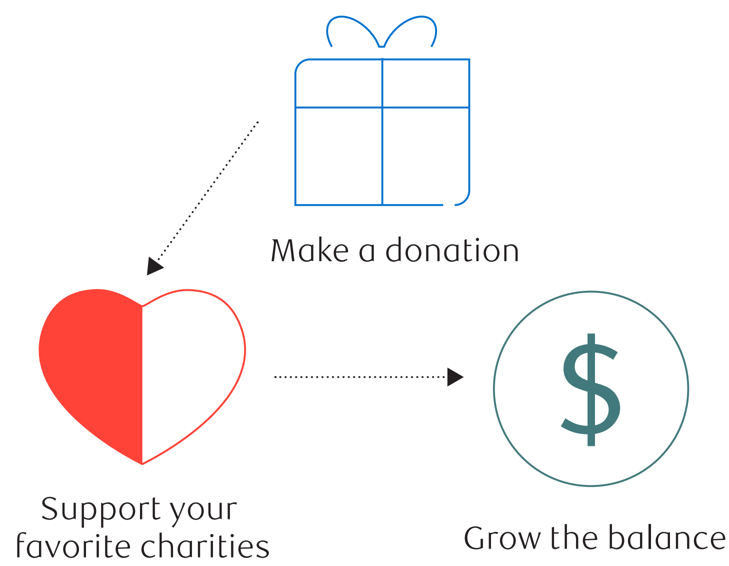
For estate planning purposes, the DAF can make grants to charities named in your will or other legal instrument, such as a revocable living trust. Or, you may designate which heir(s) may make grant recommendations.

These distributions can be identified as coming from your specific account, or they can be made anonymously at your request. However, there is one important caveat: the fund is not obligated to follow your suggestions—that is why they are called "donor-advised funds." While keeping this fact in mind, it's also important to observe that in general practice, many DAFs honor the wishes of the donor's estate.

Setting up a DAF through RBC Wealth Management

Call your financial advisor today to discuss how you can create your legacy through charitable giving and enjoy significant tax advantages by using a donor-advised fund.

How donor-advised funds work



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20-62-02705_621203 (07/20)