DONOR-ADVISED FUNDS SOAR ALONG WITH MARKETS

By Elizabeth Wine

There is a better, more tax-efficient way for donors to help their favorite charities than writing a check or pulling out their credit card. Individuals can donate assets with unrealized gains that they have held for more than a year, and they generally receive a tax deduction for the full market value. Donor-advised funds (DAFs) make this process simple, and as word has spread, they have soared in popularity. Four of the ten largest U.S. charities are currently DAFs, according to *The Chronicle of Philanthropy*.

DAFs are part of a long history of American generosity. America gives a higher percentage of GDP to nonprofit organizations than any other nation, according to the Charities Aid Foundation. However, philanthropy still has room to grow in this country. In the last five years, the S&P 500 index has nearly doubled, and according to Boston Consulting Group, the number of millionaires has jumped 40%. Despite this, Giving USA reports that U.S. households continue to donate only about 2% of disposable income, on average, as they have for the last 40 years.

Mindfulness: Driving the Needle Past 2%

The question for the charitable sector is how to move the needle beyond that 2%. Schwab Charitable, a leading national donor-advised fund and provider of other philanthropic services, believes that mindfulness is the key. "Just how do we get donors to think about how much they are giving to charity?" asks Kim Laughton, president of Schwab Charitable.

The first step is to correct mistaken impressions. Three-quarters of donors believe that they give more than the average amount to charity. But the reality is that nearly as many—some 73%—actually give *less* than the average, according to the Camber Collective.

Thanks to a convenient web interface, Schwab Charitable account holders see the amounts they have given to charities all in one place and graphically presented over various time periods. Laughton points out that the visual aids really help donors better plan their philanthropy. "Some portion of giving happens spur of the moment, and people have trouble keeping track of it," notes Laughton. "When you can manage your entire giving history in one place, it is much easier to be thoughtful about how you support your favorite causes."

It's Almost Year's End: Do You Know Where Your Charity Dollars Are Going?

The effort to help donors give more appears to be working, since 65% of Schwab Charitable's clients say they give more because of their DAF accounts. Schwab Charitable reported that donor grants grew by 12% to $1.2 billion in fiscal year 2016, which ended June 30.

DAFs are easy to open, and at Schwab Charitable, existing Schwab clients see their DAF accounts right next to their Schwab bank and investment accounts. This makes contributing cash or investments even more simple and efficient. "That gives you tremendous opportunities, because it makes charitable giving part of your everyday financial planning and life," says Laughton.

Donors can also typically avoid capital gains taxes if they contribute appreciated assets or investments that they have held for more than one year to their DAF account. In fiscal year 2016, 59% of contributions to Schwab Charitable were non-cash investments or assets. Schwab Charitable also handles the liquidation, relieving the charities of the administrative burden.

After several buoyant years in the markets, many investors and business owners face both the prospect of higher tax bills and the desire to give back. For some, donor-advised funds can tackle both issues and help them make the most of their charitable dollars.

How a Donor-Advised Fund Works