Monday, December 11, 2006
Circulation: 58,519

Work & Money

How you can deduct now, give later

Want to share the wealth, but don't know where? Financial experts point to donor-advised funds as a good choice.

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Establishing an endowment for charitable distributions is no longer the exclusive province of the wealthy, thanks in large measure to intensifying competition in the financial services industry.

In October, the Fidelity Charitable Gift Fund cut the minimum amount required to open a donor-advised fund in half. Donors may now establish a fund, which is an investment account earmarked for charitable distribution, with as little as $5,000.

The move marks the latest volley in what's becoming a quest to manage the hundreds of millions that Americans collectively set aside each year to donate. On July 1, Fidelity dropped its fees from 1 percent per annum to 0.6 percent on all accounts valued under $500,000. That same day, Schwab Charitable matched Fidelity's new fee structure on accounts in that same size range.

All this jockeying is good news in terms of tax-saving opportunities and convenience for folks who don't have money to burn, according to financial planners and advisers who focus on charitable giving. In the process, systems are taking shape to make charitable giving a way of life in households where it hasn't always been.

"What we're seeing is further democratization of charitable giving in this country," says Doug Bauer, senior vice president of Rockefeller Philanthropy Advisors, a nonprofit consultancy in New York City. "This really makes organized philanthropy a part of people's lives."

For tax purposes, donor-advised funds function as a charity in their own right. Once the donor has made the contribution, the full amount is tax-deductible in that tax year. (It's also nonrefundable.) Donors can then wait months or years, while the investment presumably grows in value, before "recommending" a disbursement to a particular organization. Recommendations are pro forma. The organization holding the fund promptly cuts a check and sends it to any organization that meets IRS criteria as a legitimate charity.

Experts say these vehicles make especially good sense for people who have incurred substantial capital gains during the year, perhaps from the sale of appreciated stock or real estate. That's because donors can take a hefty write-off in the year when they need it and postpone the details of figuring out who gets what.

"They may want the tax deduction, but they may not know where they want the money to go," says Fidelity Charitable Gift Fund spokeswoman Jennifer Engle. The instrument, she says, gives donors time to think and money time to grow.

In recent years, donor-advised funds have become one of the biggest growth areas of philanthropy, according to the Chronicle of Philanthropy. Assets held at the four largest commercial funds soared 50 percent, from $3.26 billion in fiscal 2003 to $4.9 billion in fiscal 2005, according to Giving USA, an annual report on philanthropy in America. One reason: financial planners are promoting the funds as effective instruments for reducing tax liabilities, such as those incurred during the days of big gains in residential real estate. Donor-advised funds have also become easier to use as donors flock to manage their giving online. A few clicks of the mouse at 2 a.m. are enough to get checks delivered to a dozen organizations within a few days.

But setting up a charitable endowment may not make sense for everyone. People who can't afford to part with at least $5,000 in one whack, for instance, would not qualify. Small givers might not like the rules, either: Fidelity, for instance, won't cut a check to a charity for an amount less than $250. And these programs simply don't work for individuals keen to avoid money management fees altogether. "I'm not sure it's a viable alternative" for a household earning $50,000 per year, Mr. Bauer says.

Yet for others, the concept can make a lot of sense. Say, for example, a would-be donor has seen a stock position appreciate from $10,000 to $30,000 over the past 10 years. A sale would trigger a $3,000 tax on the $20,000 capital gain. But if the giver turns over the stock to a donor-advised fund, he or she receives a $30,000 write-off instead. If reinvested at 5 percent, the principal would remain intact and generate a $1,500-per-year income stream for a series of yet-to-be-named charities.

A generation ago, those who created charitable endowments often did so through private foundations. While that is still an option, foundations cost more to manage than donor-advised funds because they require administration on a small scale. They also come with a raft of restrictions, such as no anonymous giving and limits on where the funds can be invested. Unless a person is endowing more than $1 million, the better bet is usually a donor-advised fund, says Penny Marlin, a financial planner in Delray Beach, Fla.

Choosing the best place to house the fund, once again, depends on the donor's needs and goals. Universities increasingly offer donor-advised funds, but they tend to limit a donor's options. The University of Nebraska, for instance, insists that at least half of the assets be donated eventually to the institution. Beyond that, donors may steer the funds wherever they please.

Across the country, more than 700 local community foundations serve as custodians for donor-advised funds. These generally charge higher fees than commercial funds do, according to a 2006 Chronicle of Philanthropy report, largely because they operate on a small scale and must contract with commercial firms to provide investing services. "You've got to work at it if you're going to open up an account at a community foundation," Bauer says, because distributing funds involves coordinating among multiple entities. Still, these systems may get more efficient and somewhat cheaper, Bauer notes, as community foundations increasingly partner with brokerages such as Merrill Lynch to compete with the likes of Fidelity and Schwab.

Meanwhile, the higher fees at community foundations may be cost-effective for donors who want knowledgeable advice from foundation officers on how to remedy local problems. That's according to Bruce Bigelow, founding partner of Charitable Development Consulting in Frederick, Md., who says community foundations also provide cachet that commercial funds headquartered far away can't touch.

"The people I see doing this are people who ... want to see their name in the annual report of the community foundation as a community philanthropic leader," Mr. Bigelow says. "You're being a community leader and you're supporting the Y, or the shelter, or whatever you want to do."

Still, commercial funds are aggressively working to make theirs the most desirable destination for charity-earmarked assets. Having seen Fidelity drop its minimum threshold to $5,000, Schwab is weighing the possibility of doing the same.

"We're looking at it," says Kim Wright-Violich, president of Schwab Charitable. Schwab founder Charles Schwab "is putting pressure on me to do that because he wants to make philanthropy accessible."

That's the primary reason for cutting fees, too, she says, although she admits "Schwab may make money and probably does" by using these funds to expand its customer base.

Donor-advised funds: growth in giving

FUND NAME	ASSETS AT END OF FISCAL YEAR (MILLIONS) 2003	2004	2005	END OF NOVEMBER ASSET LEVEL	MINIMUM INITIAL DONATIONS	TELEPHONE
Fidelity Charitable Gift Fund	$2,389.00	$2,733.70	$3,046.00	$3,700.00	$5,000	800-682-4438
Vanguard Charitable Endowment	474.40	695.50	945.00	1,300.00	25,000	888-383-4483
Schwab Charitable	173.10	298.00	480.00	1,100.00	10,000	800-746-6216
National Philanthropic Trust	227.00	519.20	502.00	640.00*	25,000	888-878-7900

SOURCE: GIVING USA; INDIVIDUAL FUND COMPANIES (DATA AS OF SEPT. 30, 2006)/SCOTT WALLACE - STAFF

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