

CONCENTRATED POSITIONS AND DONOR-ADVISED FUNDS

Holders of concentrated stock positions have several options regarding how they can mitigate the risk associated with owning these shares. Those who are charitably inclined may find the ease, convenience, and overall benefits of a donor-advised fund to be a particularly attractive solution.

What is a donor-advised fund?

A *donor-advised fund*, or DAF, is an account held through a sponsoring public charity into which a donor makes charitable gifts. Once the gift has been made, the donor becomes a grant advisor to the DAF. As a grant advisor, he or she can make nonbinding recommendations to the sponsoring charity to direct grants from the DAF to other public charities.

Gifts to a DAF may qualify for a charitable income tax deduction equal to the fair market value of the gifted cash or property in the year in which the gifts are made. The total deductibility of gifts in any given year is subject to the same limitations as if the donor had made an outright gift to a public charity (i.e., currently, 50 percent of adjusted gross income (AGI) for cash gifts, 30 percent of AGI for long-term capital gain property). If the full deduction cannot be taken in the year of the gift because of AGI limitations, the donor may carry forward the unused deduction for five years.

Benefits of funding a DAF with concentrated stock

Funding a DAF with appreciated concentrated stock can provide the following benefits:

- On the date of contribution, the donor receives an income tax deduction equal to the shares' fair market value.
- Once contributed, the shares can be sold without incurring capital gain tax.
- The donor has a "pool" of charitable funds that can be directed to the support of various charitable organizations.

- DAFs are typically easier and less expensive to establish and maintain than other concentrated stock strategies.
- The donor may have the funds professionally managed by his or her financial advisor.
- Successor grant advisors can be named to the DAF to continue recommending grants after the donor passes away.

Example: DAF*

Mr. Smith owns a large, highly appreciated position in ABC Corporation. He typically makes annual gifts to various charities and would like to create a DAF funded with \$100,000 worth of ABC that has a cost basis of \$20,000.

Upon funding the DAF, Mr. Smith can receive a \$100,000 charitable income tax deduction. The shares will then be sold—without incurring capital gain tax—and allocated into a diverse portfolio by Mr. Smith's financial advisor. Rather than write personal checks to various charities that he typically supports, Mr. Smith can now make grant recommendations to the DAF in support of the same charities.

*This is a hypothetical example and is for illustrative purposes only. No specific investments were used in this example. Actual results will vary. There can be no assurance of positive performance from the portfolio.

Considerations

For owners of concentrated positions who have charitable intent, a DAF can be an excellent way to sell appreciated shares and help fund a charitable legacy in a more tax-efficient manner.

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