



Welcome to *Trust Connection*, our monthly newsletter highlighting Trust news and information. Each month we will feature timely articles of interest.

## About Us

At Halliday Private Trust, it is our mission to assist our clients in the process of providing solutions, specifically through a wide range of financial advice.

Since 1982, we have utilized a full spectrum of financial services to help our clients navigate every major hurdle in their financial lives. Because we are an independent financial services firm, we utilize an open architecture approach to locating the most suitable investment options for our clients.

Our role is to help clients make smart decisions about their money. We understand that each client has unique needs and requires personalized solutions based on their goals, objectives and concerns.

## Charitably Inclined: Donor-Advised Funds

### *History*

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

In general, a DAF is a separate account that is operated by a sponsoring organization. Each account is made of contributions given by individual donors. Once the donor makes the contribution, the organization has legal control over it. However, the donor will retain all the advisory privileges.

A DAF provides the option to feed a philanthropic intent. It allows charitable assets to be professionally managed and distributed at a fraction of the cost compared to a private foundation. The lower cost is only one of many benefits from DAFs; they also offer a plethora of creative financial planning opportunities.

### *DAF Benefits*

Tax deductibility is a chief benefit of a donor-advised fund. Any contributions made to a DAF are tax-deductible in the year they were made, with a large limit at that. Up to 60% of adjusted gross income (AGI) can be donated. When confronted with a windfall that might create a big “bump” in taxable income, these contributions create a significant planning opportunity. A DAF contribution can help reduce the tax burden of that one-time windfall event.

The tax deduction made to a DAF contribution can also be leveraged through 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, it provides double the benefit: a larger deduction and no capital gain on the property’s appreciation when the property is sold.

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.

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For information and  
assistance, please feel free  
to contact one of our Trust  
Advisors:

- Michael F. Fleming, Esq.
- Sean S. Mohammadi

725 Glen Cove Avenue  
Glen Head, NY 11545

4 Executive Park Drive  
Clifton Park, NY 12065

1819 Main Street, Suite 300  
Sarasota, FL 34236

[www.hallidayprivatetrust.com](http://www.hallidayprivatetrust.com)  
(800) 786-1598

DAFs also provide great estate planning opportunities. Assets contributed will permanently leave the estate allowing them protection from estate taxes. The annual gift tax exclusion can be used to make fund contributions. 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.

### *A Generational Impact*

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.

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 that 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 children to take the helm in adulthood.

A well-funded DAF often will outlive the benefactor. As a result, the heirs will be able to direct gifts during their lifetime 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 financial planning, there are few strategies that provide the varied opportunities that 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 the ability to be involved in how 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 charitable intent as a component of 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.

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