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LIST: TOP TARRANT COUNTY WEALTH MANAGEMENT COMPANIES Page 24

Your Choice: Taxes or Charity?

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Every year at about this time, articles appear in various publications regarding year-end tax planning. These typically focus on reducing your tax burden by shifting income between tax years, increasing retirement plan contributions, harvesting investment losses and increasing charitable contributions.

Unfortunately, there is seldom any discussion of the most tax efficient ways to make charitable contributions. One method is to use a donor advised fund. Doing so can multiply the impact of gifts, reduce ordinary income taxes and, in some scenarios, permanently avoid the capital gains tax.

DONOR ADVISED FUND (DAF)

A DAF allows you to contribute to the fund, receive an immediate tax deduction, and recommend grants to charities from the fund in future years. EXHIBIT 1 shows the substantial tax savings gained by "front loading" several years' worth of regular annual donations into the fund all at once.

Exhibit 1

	Year 1	Year 2	Year 3	Year 4	Year 5	5 Yr Total
Option 1: Annual $50,000 contribution						
Itemized Deduction	$50,000	$50,000	$50,000	$50,000	$50,000	$250,000
39.6% Tax Reduction	$19,800	$19,800	$19,800	$19,800	$19,800	$99,000
Option 2: Contribute $250,000 to DAF in Year 1						
Itemized Deduction	$250,000					$250,000
Standard Deduction		$24,000	$24,000	$24,000	$24,000	$96,000
39.6% Tax Reduction	$99,000	$9,504	$9,504	$9,504	$9,504	$137,016
Additional Tax Savings Using DAF						**$38,016**

For simplicity, assume a couple donates $50,000 annually to charity, has adjusted gross income (AGI) of $1,000,000 (39.6 percent ordinary income[1] and 23.8 percent effective[2] long-term capital gains tax brackets) and has no other itemized deductions. They also have a substantial amount in savings and investments that they have no plans to use in the next five years. The standard deduction proposed by the Trump plan[3] for married couples filing a joint return is $24,000. Our couple currently itemizes their deductions each year because they exceed the standard deduction. Establishing a donor advised fund instead reduces taxes owed by $38,016, an extra 38 percent over the 5-year period.

CONTRIBUTE APPRECIATED SECURITIES

Much more effective than donating cash is contributing long-term appreciated securities. Our couple from EXHIBIT 1 owns shares of stock currently valued at $250,000 for which they paid $60,000 (their cost basis). Rather than donating cash to set up the DAF in year 1, they can use the securities by either 1) selling them and donating the proceeds to the DAF or 2) donating the actual shares to the foundation, which will then sell them and place the proceeds in the DAF.

Except for those in the lowest tax brackets with a 0 percent long-term capital gains rate, selling securities to make charitable donations will eat up some of the tax benefit because of capital gains taxes. However, donating long-term appreciated assets directly avoids entirely the capital gains tax, allows you to make the same gift for a much lower cost, and dramatically increases the amount of tax savings. In our example, the couple creates the same $250,000 value in their DAF but at a cost of only the $60,000 basis, and they save $83,236 compared with regular annual charitable contributions.

OTHER WAYS TO FUND A DAF

The perfect time to create a DAF is when you are considering the sale of a business, closely held stock, real estate, artwork or other long-term appreciated assets. As in EXHIBIT 2, you'll receive a charitable deduction for the appraised fair market value and never have to pay capital gains tax on the apprecia-

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Exhibit 2

	Sell Stock & Contribute Cash	Contribute Shares to DAF
Capital Gain on Sale ($250,000 Proceeds - $60,000 cost basis)	$190,000	None
Capital Gains Tax (23.8% * $190,000)	$45,220	$0
Charitable Contribution to DAF (Mkt Val – Capital Gain Tax)	**$204,780**	**$250,000**
Ordinary Income Tax Savings in Year 1 (39.6% * DAF Donation)	$81,093	$99,000
Plus Capital Gains Tax Savings	N/A	$45,220
Net Tax Savings in Year 1	**$81,093**	**$144,220**
Tax Savings in Years 2-5 due to Std. Ded. (from EXHIBIT 1)	$38,016	$38,016
Total Tax Savings over 5-year period	**$119,109**	**$182,236**
Total Tax Reduction from EXHIBIT 1 using Cash to fund DAF	**$137,016**	**$137,016**
Increased/(Decreased) tax savings vs. Donating Cash to DAF	($17,907)	$45,220
Increased/(Decreased) tax savings vs. Annual $15,000 Donation	$20,109	$83,236
Net cost of gift (cost basis plus capital gains tax)	$105,220	$60,000

Note: Net cost of donating cash as in EXHIBIT 1 is always the amount of cash donated. $250,000 in this case

(However, if the donation is to a private foundation, the deduction is limited to cost basis.) *See sidebar.*

NORTH TEXAS COMMUNITY FOUNDATION

The North Texas Community Foundation is a local nonprofit organization with deep roots in Tarrant and surrounding counties. Community foundations are pools of donor funds that are invested on behalf of the fund holders who advise regarding the charities and/or causes they wish to support. The foundation currently helps about 170 families invest and distribute grants from assets totaling about $290 million. The foundation accepts a wide variety of assets, assists in structuring the most tax efficient donation for each situation and provides personalized service tailored to each fund holder's objectives.

> "The North Texas Community Foundation will help me put my money to the best use."
>
> ***Drew Winborn***

[1]Assumes the top ordinary tax rate remains unchanged at 39.6%. The House has proposed leaving the top rate unchanged, but starting at $1 million in AGI. The Senate has proposed dropping it to 38.5%. Due to the small differential, and the uncertainty regarding the eventual outcome, we have used the existing 39.6% rate.

[2]Includes 3.8% Medicare Surtax on Investment Income for high-income taxpayers.

[3]Assumes the standard deduction will increase because both the House and the Senate have made the same proposal. If the standard deduction is not increased, and remains at $12,700 for married couples filing jointly, the additional savings from front loading would be $20,117 vs. $38,016.

Family Tradition

Drew Winborn grew up in a comfortable home where his parents and grandparents considered philanthropy and giving back extremely important. "Giving back is an important responsibility and something everyone needs to consider along with successes in life," he said.

Winborn's grandparents, Don and Linda Bowden, founded Fort Worth-based Wholly Guacamole and Fresherized Foods, both of which have been extremely successful in the food industry. Winborn followed in his grandfather's steps at Fresherized Foods and at the sale of the company, Winborn, his grandparents and his parents each decided to establish their own funds at the Community Foundation.

"The North Texas Community Foundation will help me put my money to the best use," Winborn said. "I'm excited to learn from the Community Foundation."

Winborn and his wife, Melissa, are most interested in using their fund to help people achieve their educational goals. They both value their education and the opportunities it has provided them. Winborn knows that education "empowers." "By giving funds toward helping others receive an education, we are enabling them to make their own way and empowering them to find success on their own," he said.

Winborn now runs his own consulting firm and shared his hopes of being involved in meeting the community's need.

***Note:** Information contained in this article is not intended to constitute tax advice. Every taxpayer's situation is unique and should be reviewed with a tax adviser. The examples may or may not be appropriate for your situation. Assumptions regarding changes related to the proposed Trump tax plan are footnoted.*

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