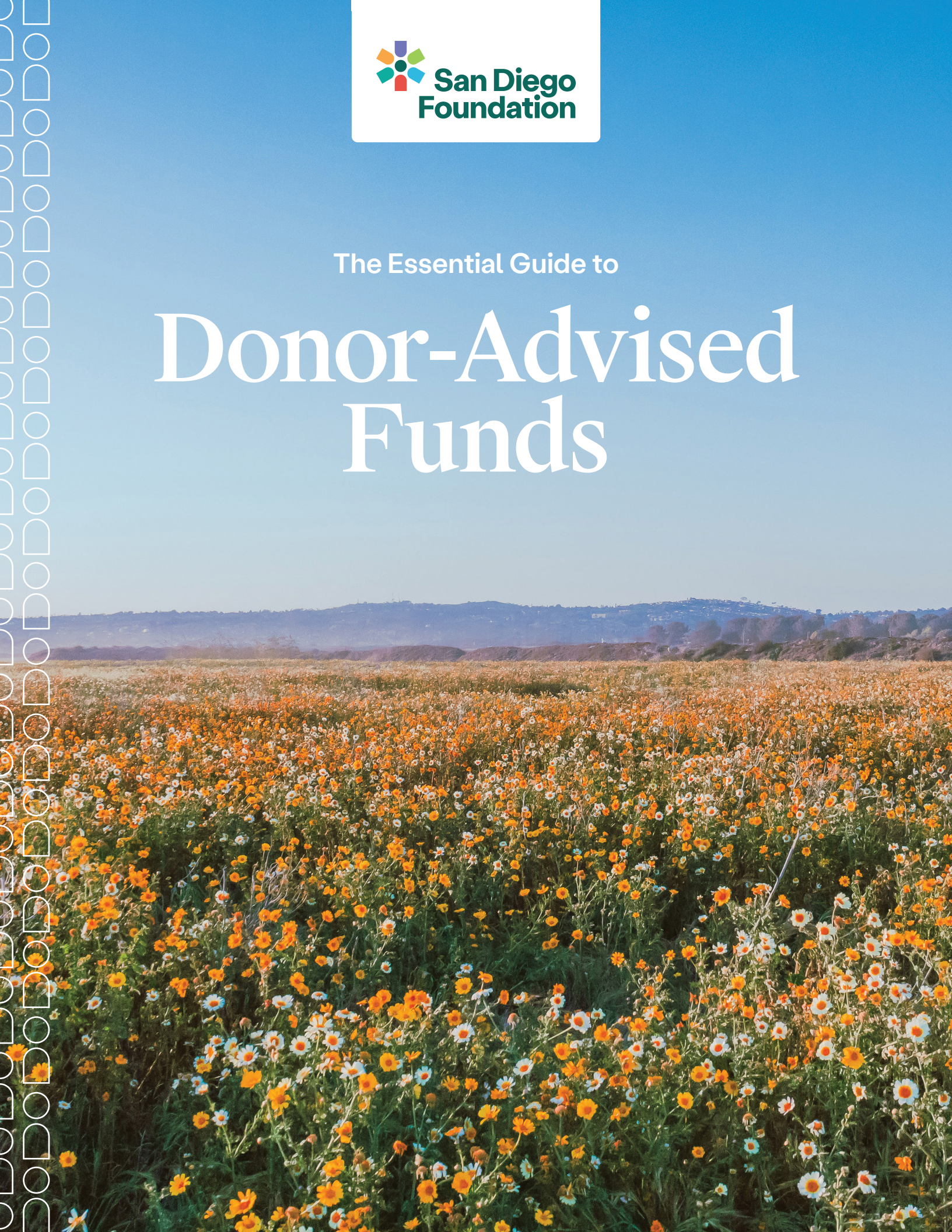




The Essential Guide to

Donor-Advised Funds



Your Community Asset

For nearly 50 years, donors, nonprofits, communities, government and civic leaders have trusted San Diego Foundation to transform lives and have partnered with us for lasting change that moves our region forward. Our mission is to inspire enduring philanthropy and enable community solutions to improve the quality of life in our region.

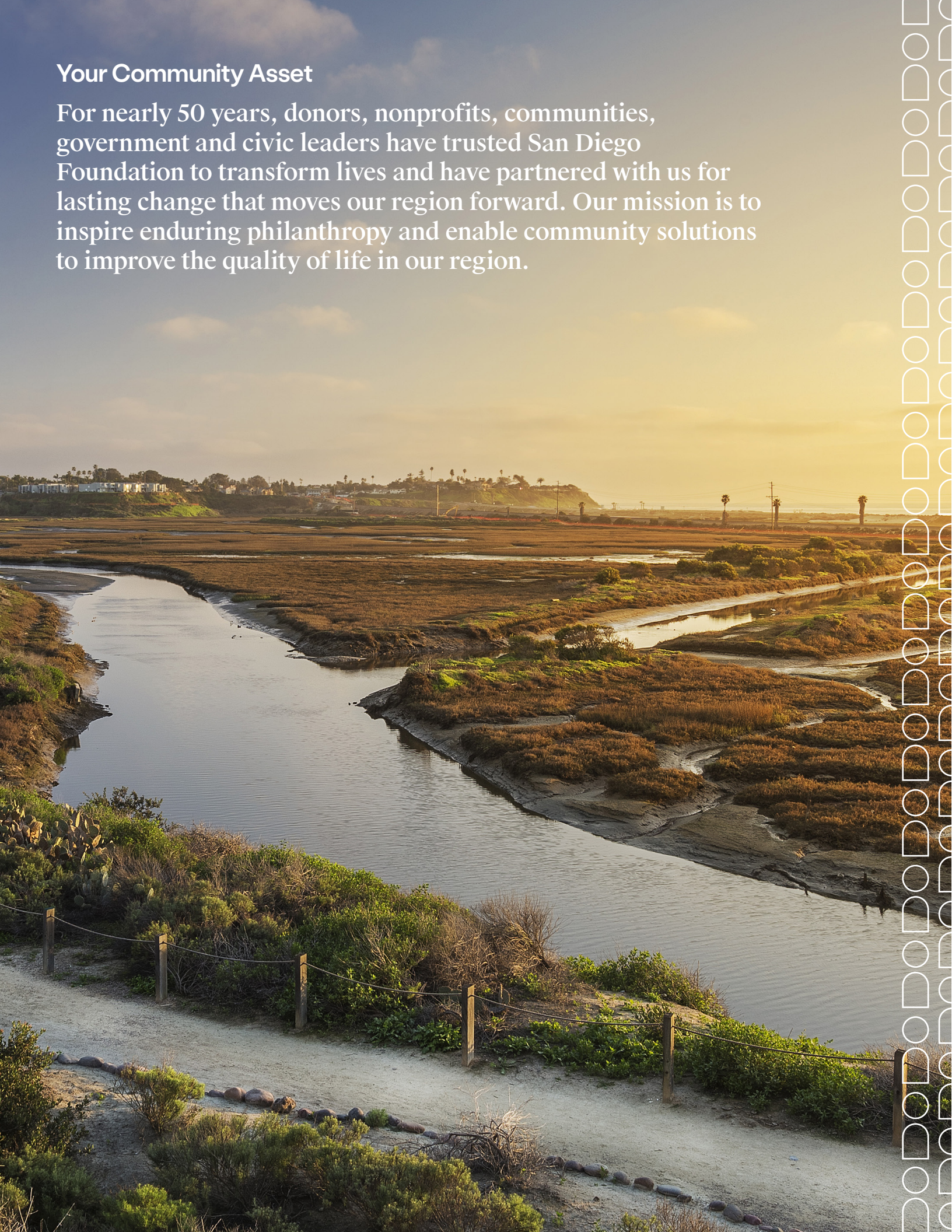


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Whether you are running a successful company or spending free time with family, we know that every hour is precious. That goes for your charitable efforts, too.

Donor-advised funds can be one of the best ways to give back to your community and help others. But setting one up can also be a complex and daunting process without the right tools and support.

We've created this helpful resource to provide you with the information you need to guide your decision making.

What is a Donor-Advised Fund?

A donor-advised fund is a simple, tax-efficient way to give to your favorite nonprofit organization(s) or area(s) of interest. You are able to contribute assets such as cash, stock or real estate and take an immediate tax deduction, then support your favorite community initiatives or nonprofit organizations whenever you are ready.

Over time, your initial charitable contribution grows through tax-free investments, and at any time you can grant your funds to nonprofits focused on impactful initiatives that mean the most to you.

The best part is, charitable sponsors, such as community foundations, manage all the heavy lifting for you. San Diego Foundation, for example, has an expert staff to process your grants, maintain historical records of your philanthropy and provide regular fund statements to make tax reporting as seamless as possible.

Why Consider a Donor-Advised Fund?

Donor-advised funds have become one of the most used tools in philanthropy to maximize the impact of charitable dollars. According to the National Philanthropic Trust, contributions to donor-advised funds have recently reached an all-time high and are expected to rise even further in the coming years.

In 2019, philanthropists contributed more than \$38 billion to approximately 873,000 donor-advised funds in the U.S. and used these donor-advised funds to recommend more than \$27 billion in grants to qualified charities.

How it Works



Give

Contribute assets to your fund and take an immediate tax deduction



Grow

We invest funds to maximize your return and strengthen your impact



Grant

Grant your funds to nonprofits focused on causes you care about

This popular method of philanthropy can be attributed to four primary reasons:

1. Donor-advised funds accept cash and non-cash assets like stock, real estate, mutual funds, partnership interests, life insurance and more. As U.S economic indicators have experienced steady growth in recent years and investments have performed strongly, donor-advised funds have provided philanthropists a vehicle to deposit assets without paying capital gains tax (see page 4).

2. Donor-advised funds allow you to invest and grow your money over time, then make grant recommendations to nonprofit organizations you choose. While you receive the immediate tax deduction from the initial contribution, you aren't forced to select a charity the moment you establish the fund. This is especially helpful for charitable individuals who suddenly come into a large amount of money – selling a business or death in the family are two common examples – but aren't ready to donate the entire lump sum to one or two nonprofits.

3. Donor-advised funds are a hybrid between a private foundation and giving directly to a nonprofit organization (see page 8). Similar to a private foundation, you can establish your fund/foundation now. Unlike a private foundation, you can choose where to give over time without annual donation requirements. Additionally, with a donor-advised fund, the charitable sponsor handles all the administrative aspects and, in many cases, provides investment managers to help you grow your funds. Also, due to the high startup costs and annual fees that come with private foundations, there is a lower barrier to entry with donor-advised funds.

4. Donor-advised funds allow for anonymity. At San Diego Foundation, we house and manage thousands of donor-advised funds, and donors have the option to remain anonymous during the granting process. This is not the case when donors give direct to a nonprofit or give through a private foundation.

Endowment vs. Non-Endowment

Once you choose to open a donor-advised fund, the next step is to decide whether an endowment fund or non-endowment fund best suits your personal goals.

An endowment is a permanent fund. Endowment funds are pooled for maximum benefit and invested to achieve long-term capital growth. Because they grow wealth over time and their principal is never spent, endowment funds are powerful tools that local philanthropists can use to give today and for generations to come.

Non-endowment funds have no permanent principal balance and are immediately available for grant distribution.

“We approached San Diego Foundation and began working with their talented staff. Their **connections and knowledge of the community** leverage our dollars so we can make a difference for the senior population.”

Don Ambrose, Del Mar Healthcare, Inc., President & Donor

What Can I Give?

One of the most common methods of giving comes in the form of cash. However, one of the reasons donor-advised funds are so popular is that they cater to your preferred form of charitable giving.

Donating cash is simple. Donor-advised fund tax deductions include up to 60% of adjusted gross income (AGI) for gifts of cash.

- Cash
- Checks
- Wire Transfers
- Automatic Deposits (One time or recurring)

By donating appreciated securities to your fund, you avoid paying up to 20% in capital gains tax on the sale of non-cash assets.

- Stocks (publicly traded, private and restricted)
- Bonds
- Mutual Funds
- LLP Shares
- Private Equity Stakes
- Partnership Interests
- Pre-IPO shares
- Life Insurance
- Trusts
- Real Estate

Exploring the Tax Benefits

Opening a donor-advised fund provides tax benefits similar to other charitable donations to 501(c)(3) nonprofit organizations. Your gift is immediately tax-deductible if you itemize deductions on your personal tax return.

But tax benefits don't end there. Based on the type of asset you contribute to your fund, tax benefits can include:

- **Income Tax:** As stated, you receive an immediate income tax deduction in the year you establish your donor-advised fund. This includes up to 60 percent of AGI for gifts of cash and up to 30 percent of AGI for gifts of appreciated securities, mutual funds, real estate and other assets
- **Capital Gains Tax:** You will incur no capital gains tax on gifts of appreciated assets
- **Estate Tax:** Your donor-advised fund will not be subject to estate taxes
- **Tax-Free Growth:** Your contributions to your donor-advised fund appreciate tax-free

Once your fund is open, it is the responsibility of your charitable sponsor to administer and invest the funds wisely. At San Diego Foundation, our in-house Chief Investment Officer is available to discuss asset allocation and portfolio performance with you.

Bunching Deductions

Even if you don't plan to itemize your tax deductions every year, a donor-advised fund could still be right for you. A new technique, "bunching your charitable deductions," could be an effective tax strategy that meets your needs. Learn more at SDFoundation.org/Bunching.

Gifting Real Estate

If your real estate property has grown in value, but the expenses and maintenance no longer make it a worthwhile investment, donating real estate to a donor-advised fund offers a reduction in taxable estate value and the same benefits as stock contributions. Learn more at SDFoundation.org/RealEstate.



Avoid Capital Gains Tax

Gifting stock, real estate and other appreciated securities is a strategic, win-win opportunity that is quickly becoming one of the most effective ways you can give back to your community and help others.

Instead of paying up to 20 percent in capital gains tax on the sale of stock or other non-cash assets, you could open a donor-advised fund administered by San Diego Foundation, which allows for more giving potential and immediate tax savings. Those savings can then be directed to important programs and initiatives that align with your charitable interests and advance quality of life in the region and beyond.

By avoiding capital gains tax, you're leveraging your contribution for a bigger financial impact in your community while also securing a better tax break. In other words, your charitable investments and assets go much further.

You can open a donor-advised fund using most forms of appreciated assets, so long as you've held on to the assets for at least one year.

“I had the income. I had the identity. And now, through San Diego Foundation, I have a way to be significant in this world and **execute the purpose of why I'm here.”**

Aaron Taylor, CBS Sports Analyst, NFL Super Bowl Champion & Donor

How a Donor-Advised Fund Fits Into Your Investment Portfolio

Most diversified portfolios include low-risk assets, like certificates of deposits (CDs) or bonds, combined with vehicles that carry greater risk, such as stocks, options and futures. Other well-known investment vehicles include annuities, mutual funds and real estate, or emerging investment opportunities like cryptocurrency.

Just like these investment vehicles, your donor-advised fund provides an opportunity to invest and grow your money over time. With this vehicle, however, your goal is to grow your charitable funds for greater philanthropic impact.

Depending on the type of fund you set up, your assets are invested to maximize your return and strengthen your grantmaking and social good power.

San Diego Foundation invests your funds based on strategies that increase the impact of your charitable gift and creates sustainable growth. For example, our most popular investment portfolio is our endowment portfolio, which maintains value and generates revenue over time to serve the region in perpetuity.

At San Diego Foundation, donor-advised funds are invested in a diverse, carefully-defined set of asset classes to mitigate risk and provide long-term total return.

Investment Committee

With over 150 years of combined global and domestic expertise, the San Diego Foundation Board of Governors Investment Committee drives asset management and investment growth to meet fund objectives. The Investment Committee is committed to:

- Protecting the corpus of the Foundation
- Preserving the spending power of the income from the fund
- Maintaining a diversified portfolio of assets in order to meet investment return objectives while keeping the level of risk commensurate with that of the median fund in a representative foundation and endowment universe
- Complying with applicable law

Learn more at SDFoundation.org/Investments

“A donor-advised fund can be a great tool for investors who want the **tax-free growth and long-term impact** of a private foundation without the costs and management headaches.”

Rick Brooks, CFA®, CFP®, Blankinship & Foster, LLC., Director and Chief Investment Officer

Why Work With a Community Foundation?

As soon as you set up a donor-advised fund with a community foundation, you immediately become part of a family of hundreds of like-minded philanthropists. As a donor at San Diego Foundation, you will be provided with exclusive opportunities to build lasting relationships through one of the largest donor networks in San Diego.

Community foundations, like San Diego Foundation, are grantmaking public charities dedicated to improving the lives of people in a defined local geographic area. We bring together the financial resources of individuals, families, agencies and businesses to support nonprofits strengthening our communities.

Charitably-minded individuals turn to community foundations to manage donor-advised funds because community foundations:

- Have insight and community knowledge
- Grow your giving and impact through strategic investment
- Provide expert advisors in philanthropy
- Ensure optimal tax advantages
- Re-invest your fees back into the community
- Maximize the impact of your gift(s)
- Deliver the highest degree of personal service
- Connect you with charitably-minded peers
- Honor your legacy
- Simplify the giving process
- Accept a variety of assets

Annual Events

San Diego Foundation offers donors opportunities every year to strengthen your relationships and engage with charitably-minded San Diegans in the region. Opportunities include:

- Donor & Legacy Appreciation Luncheon (Spring)
- Scholarships Celebration Event (Summer)
- Annual Report to Community (Fall)
- Investment Summit (Winter)
- Regional Affiliate Events (year-round)

“I value the power of collective philanthropy that is achieved through San Diego Foundation. Individually, one can move stones. Collectively, we can move mountains.”

Hollyce Phillips, Carlsbad Charitable Foundation Board Member

Comparing Your Options

When establishing a donor-advised fund, a common question is, “What’s the difference between a community foundation fund versus a commercial gift fund or a private foundation?”

While each share some of the same benefits, donor-advised funds at community foundations provide you with opportunities to strengthen your own community, network with like-minded philanthropists and maximize the impact of your charitable giving in ways that commercial gift funds and private foundations cannot.

Fees from donor-advised funds at community foundations are re-invested into the community by way of programmatic work, staff support and grantmaking, a key differentiator from a private foundation or a commercial gift fund where fees benefit stakeholders, not your community.

Benefits for Charitable Giving Options	Community Foundation	Private Foundation	Commercial Gift Fund
No startup cost	✓	✗	✓
Grant anonymously	✓	✗	✓
No annual fees	✓	✗	✓
No annual 5% payout required	✓	✗	✓
Maximum tax benefits	✓	✗	✓
Grant and admin services	✓	✗	✓
Form 990 is not required	✓	✗	✓
Community knowlege	✓	✗	✗
Fees re-invested into community	✓	✗	✗
Network with local donors	✓	✗	✗
Philanthropic advisors	✓	✗	✗
Donors own brand	✓	✓	✗



Understanding Fees

As you're considering opening a donor-advised fund and determining which option is best for you, it's important to note that all charitable sponsors have one thing in common – administrative fees. However, rarely are two fee structures the same. Some organizations design their fee structures based on fund type, while others charge based on fund longevity or level of fund support.

When assessing fees, charitable sponsors typically charge donors a percentage of the fund size for administering the fund, calculated using basis points. Additionally, they charge minimum fees and/or transaction costs. Other variables that impact fee structures include spending policies, timing, capacity and fund activity.

The most important detail in assessing a fee structure is to understand how fees are used. For example, fees generated from funds at commercial institutions become revenue that can be used at the firm's discretion and primarily benefits stockholders.

Community foundations, however, are geographically housed and focused, and committed to sharing fee income with local nonprofits strengthening communities. They provide valuable community insight, research and resources to help maximize impact for philanthropists. Also, community foundations are often one of the first to get involved in regional challenges and solutions that shape the future of people who live in the community.

Not only do fees cover the cost of fund support, such as tax receipting, grant due diligence, research, and other donor services, they also play a part in funding programmatic work that leads to improvements in education, health & human services, the environment, arts & culture and youth development, a major differentiator compared to the more limited service offerings of commercial fund providers.

Strengthening Family Ties Through Philanthropy

When it comes to family, philanthropy can often serve a much deeper and more powerful purpose.

Not only is engaging your family in philanthropy an excellent way to teach the next generation about financial stewardship in the context of giving back, but many parents, children and relatives participate in philanthropy together to strengthen shared beliefs and instill life-long charitable values.

From helping to instill family values and establish meaningful traditions, to maintaining family ties over time, donor-advised funds provide a unique opportunity for San Diegans wanting to do more with their charitable giving.

“Our donor-advised fund at San Diego Foundation allows our large extended family to experience the joy of carrying on the legacy of our grandparents.”

Bob Fletcher, Grandson of Col. Ed Fletcher and Donor at San Diego Foundation

4 Ways to Start Your Family Philanthropy

1. Identify Your Favorite Interests and Causes

What is your family most passionate about? What activities do you enjoy most as a family? These types of questions can help inform the social impact areas that you want to support with your giving.

2. Create Your Philanthropic Mission Statement

Now that you've identified your preferred areas of giving, it's time to create your mission statement. A mission statement is very personal to your family and is meant to reflect your values. The statement should describe the difference you want to make in your community or with your cause.

3. Create a Giving Plan

Do you want to support the same organizations annually? Do you want to work together as a family to decide on new causes to support each year? Decide what style of giving you prefer and how hands-on your family wants to be.

4. Plan for the Future

As part of the process, it's important to talk about what happens decades into the future. You should take the time to thoughtfully plan how you wish to distribute your estate after your lifetime. One of the many benefits of family philanthropy is the opportunity for your children and grandchildren to carry on your legacy through your donor-advised fund.



How to Get Started With Donor-Advised Funds

San Diego is a region full of generous philanthropists who give back to the community to improve our region, our cities and our neighborhoods. Every day, philanthropists open donor-advised funds to leave a legacy for their community.

The San Diego Foundation team of charitable giving experts will help you give confidently by working with you to identify the most effective ways to contribute and start your philanthropic journey and your impact.

For almost 50 years, The Foundation and our donors have granted \$1 billion to grow a vibrant San Diego region. We manage more than \$870 million in assets and work with thousands of donors.

We understand that setting up a donor-advised fund can be challenging, as well as personal. Our experienced staff understands the technical complexities of charitable giving and helps simplify the process. We are your personal support team here to help you manage your fund and give confidently. We also recognize that as your giving grows and evolves, so do your needs.

Our experienced staff understands the technical complexities of charitable giving and helps simplify the process. Contact us at (619) 814-1332 or DonorServices@sdfoundation.org.

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