Tax-Smart Giving with Donor Advised Funds [Ep. 8]

Transcript

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I think if you're charity inclined, you should really consider a donor-advised fund, right? If you're not, if you're listening to this, be like, "I don't really tithe either. I don't give charities." Then there's no point in doing a donor-advised fund. I wouldn't mess with it. But if you are charity inclined or think you will be in the future, do the math and save yourself some money.

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All right, we're on, Robert.(...) Today we're going to talk about DAFs. Are you ready? I am. It's an exciting topic. Most people don't even know about it until, unless they talk to a proper adviser. So let's get into it and say, let me just ask, what is a DAF? What exactly is a DAF? Sure. A DAF is a donor-advised fund, and there's a lot of misunderstanding about it.

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Things have changed over the last 30, 40 years of how people contribute to a charity account. In essence, a DAF is an account that you can manage. You, the client, you donate some type of resource, stock, real estate,(...) potentially part of a sell of a business. You get the deduction immediately.(...) And later in life, you just have to donate a portion of that, eventually all of it, but a portion at your leisure into a legitimate 501(c)(3) charity. But the benefit is you get the deduction that year that you make the contribution. So I guess, thank you for explaining that, but how does it truly work? Like, you know, if I was wanting to do a DAF, how would I go about it? Sure.(...) First is most institutions now are going to let you open a DAF, and we're no different in that regard. But wherever you have your financial adviser, feel free to call them up, ask them to open up a donor-advised fund for you. You're going to open it up, then you're going to want to look at how to fund it. Like we talked about earlier, it can be you can just write a check.

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A common way lately in the last few years that's become popular is called bunching. What that is, is if let's say your charity inclined in the tithing at your church or donating your favorite university or whatnot, it might make mathematical sense and tax sense to look at what you're going to give to a charity over a five, six, seven year period and go ahead and do it in one year. You get the deduction that year, and then in future years you donate it to the same charity. The benefit to you, depending on your income bracket that year, could be a greater tax deduction.(...) But in essence, meet with your adviser, have them open a DAF, figure out how to fund it, figure out what charities you might want to at a later time, donate money, and what type of impact you want to have. So quick question, just a side question. So it doesn't have to be to the same charity each year. Exactly. And does it grow in the market? Yep, that's the beautiful thing. Let's say you plop in a chunk, you put in 50 grand, you do it that first year. Now the important thing to remember is you get the deduction the year you do it. So let's say you do 50 grand, but it grows to 150 to your point, it's invested. For tax purposes, sometimes people assume, oh, so I get the deduct the 50 grand up front plus the growth? No, no. You get the deduct initially, it is invested to your point, but that growth will benefit the charities that you give the money to. It won't benefit you per se, because you already got the deduction up front. You don't benefit from additional tax deduction on the growth. You do benefit in the sense that now your favorite church or your favorite college or whatever your 50C3 is that you like to donate money to, they will end up getting more money because of the sacrifice you made in putting the contribution to begin with. Okay, so I know that if a person happens to know what a donor advised fund is, they normally think it's for the uber wealthy, like the ultra wealthy people. Is that still the case today?(...) That's a great question. So as you know, it used to be decades ago, I mean,(...) the Bill Gates of the world, they have these complicated trusts and there's some good reasons you may want that, but also that can cost an arm and a leg to get an attorney involved and get the trust documents and to maintain it. Now, donor advised fund is kind of democratized, just like investing,(...) ETFs have democratized stocks, investing made it simpler. Donor advised fundhave done the same thing.(...) Most firms, the minimum, including our firm, the minimum is 10 grand.

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So you can put in 10K, you have a donor advised fund, most firms are not going to charge you any additional cost to open the account, right? They're going to charge you to manage it, but not to set it up, not to create estate documents, long winded answer to your question, but bottom line, it's 10 grand is typically the minimum. So Glen, thank you. So kind of another side question here, you and I, we grew up humble means, but some would consider on the poor side.(...) So even people like our family, how we grew up in these days, they could now contribute to a donor advised fund if they are charity inclined. Sure, sure.(...) They might not be able to afford to do the following, but going back to the bunching if they could, right? Because there's not a ton of resources, you probably can't afford to bunch and oh, what I'm going to give to charities over the next five years, I'm going to try to fund it in one year. But that might even be a more of a benefit if that somehow you could swing that is to do the bunching, you know, but, but absolutely 10K is the minimum. Okay, so let's play this out. I pass away. I have a donor advised fund. Soon? Hopefully not soon. It just depends on who's betting on it.(...) But my wife, Lauren, she inherits a donor advised fund that I set up. How does that play out? Does she just get to take the money and spend it herself? Assuming you've set it up correctly and you put her as a beneficiary, right? Successor, you pass away now she's the one in charge of that to decide what charities get benefit from those savings that you guys did. There's no currently, there's no time limit on that. So for someone considering a donor advised fund like myself or anybody, what would be the first step we would take?(...) Figure out how you're going to fund it, right? Again, we talked about are you going to write a check? Do you have some highly appreciated stock? Let's say you bought Nvidia and your cost basis is 1% of what it's currently worth.

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That would be a great example of something you'd want to put in a donor advised fund. Why? If I sell Nvidia, make that massive capital gain. Now I pay a capital gain tax on that. I have a less dollar amount and then I grab that lesser dollar amount and give it to a charity. Why not go ahead and give the fully appreciated Nvidia in this example before you sell it? You get a bigger tax deduction and your charity receives more money, right? So the steps would be, see how you're going to fund it. Do you have any appreciated stock? Do you have cash? Do you look at your income? Are you in a sales industry where one year you have a relatively low income and the next year it's six times that? You may want to wait until you're in a higher earning year because you're going to be in a higher bracket, right? So look at that, how you want to fund it. Your adviser can quickly open it up. It's not very difficult.(...) Fund it and then decide what charities you want to have benefit from that sacrifice you did. Okay, I've got another question.(...) Do all financial advisers, are they capable of doing a donor advice fund? And with that, do we do them at GDS?

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Absolutely, we do them. And I would say most financial advisers can do them. I would say most don't do them.(...) Honestly, I just think it's probably a little bit more work. It's a little more back end work. You got to maintain it as the adviser. Now you have one more account. You need to make sure it's managed correctly. There's a lot of things advisers can do. They don't. And it's, I think maybe just being a little bit lazy or not being up to date with certain laws and regulations of how to benefit your client the most. I've literally had conversations that you've probably heard of me talk to other advisers about bunching and they're not even familiar with that.(...) So yeah, I would say most advisers, if you're out there and you're happy with your adviser, then use them. Have them set it up for you. But yeah, absolutely. We do them pretty much. As you know, anything we can do in the industry, we try to do here at GDS Wealth Management. Perfect.(...) So as we wrap it up, if there was one key takeaway about donor advice funds that you would want our listeners to remember, what would that be? And to throw you a curve ball, I know you like quotes. Do you have a quote that would go with that?(...) I think if you're charity inclined, now you should really consider a donor advice fund, right? If you're not, if you're listening to this, be like, "I don't really tithe either. I don't give charities." Then there's no point in doing a donor advice fund. I wouldn't mess with it. But if you are charity inclined or you think you will be in the future, do the math and save yourself some money. In terms of quotes, I'm going to go with Anne Frank. She has a quote that... I figured you had one. I was just guessing. That nobody's ever gone broke by giving.(...) And I think that's very true, right? I think people and charities can benefit a lot from contributions that people do to those charities. Well, perfect. I appreciate it, Glen. I'm pretty sure, like myself and others, that we learned a lot today about donor advice funds. So I appreciate you diving into it and going into details. My pleasure. Are we going to do the mailbag now? I'm pretty sure it's time for the mailbag. Let's do it. So today's question happens to be interesting because I know sometimes we don't know who(...) the question comes from. And it could come from clients, non-clients, people from all over the country. But today happens to be a client. A client you know. Now I'm still only going to say the first name for privacy, but you're going to know who this is as soon as I say it. So what are your thoughts, Glen, around-- From a client. Well, I'm about to tell you.(...) And what are your thoughts around investing in precious metals versus stocks and bonds? And this question is from Terry and the Terry you know. Okay.(...) So precious metals,(...) in my opinion, that's more speculative investing.(...) We're investors. We're not speculators.(...) There are periods of time, especially lately, last few years. Let's talk about gold. Gold has done very well lately.(...) But if you look historically, gold's performance hasn't been good in the last hundred years. It's up about five and change. Five and a half. Shoot, we could even round up. It call it six, which it hasn't been six in the last hundred years. But let's say it's six.(...) Let's compare that to the S&P 500. If depending on if you want to include dividends or not, 10 to 12. So let's go with 10. Again, I'm shooting low on the stocks and high on the gold. Gold would have made you a 6% in the last hundred years.(...) S&P 500 would have made you a 10. That's a huge delta, 400 basis points. In addition to that, S&P 500 has a dividend, right? Most people invest because at a later time in life, they might need some of those resources to retire on.(...) You could always say, "Well, I could sell gold." You could, but there's no dividend play on it. And then in terms of fighting inflation,(...) with gold and other commodities, you're hoping that they go up in value. Why would gold go up? Gold is used for jewelry. Of course, it's using medical devices and it's a great conductor. So it's used for other reasons than jewelry. But at the end of the day, it doesn't have a huge utility.(...) So if we have massive inflation, gold should go up. But guess what? If I own Walmart,

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or examples, I love to give our Coca-Cola, and if you're, I use my father, if you're addicted to Coke Zero like my dad,(...) easily they can increase the price of that soda pop.

(...)

Five cents, 10 cents, 20 cents, and you're still going to buy that soda, right? It's a lot easier for a stock company out there to pass on that inflation tax to the consumer. Whereas gold, the utility's minimal.(...) We've somewhat arbitrarily decided it's a store of value, kind of like Bitcoin, which is obviously why I'm not a huge fan of Bitcoin. I like to invest in things that there's a utility. It's easier to predict their value. It's easier to predict not only what price you're paying for it today, but where it's going to go.(...) So hopefully I'm answering that. You can make money in gold. We don't like to put our clients money in gold because we think there's better ways with less risk to make people more money. Side question though to Terry's question, and I know the answer is, has there ever been a sliver of time or a nugget of time, not a gold nugget, but a nugget of time where you've ever invested in a gold or gold ETF and why? Yeah, there's been a few times in 22 years. I think there's two times when gold was astronomical that it made sense, but that's typically when it's out of favor. When everybody's talking about gold, that's not the time I want to invest in it. Just like a stock, when everybody's wanting to get into it, you probably missed the boat.(...) You want to get in it when it comes out of favor. So if in a year from now, people hate gold, if we were going to get in, that's the time you might consider a half a percent of somebody's portfolio one percent. But even then, it's not 50% of your portfolio, it's a fraction of it.(...) And then of course, not the diving of the weeds, but a lot of times when you invest in commodities, you get a K1, which we're not familiar with K1, it just makes your taxes, you got to delay your taxes. Not all commodities have K1s, but a lot of them do. So we try to avoid K1s whenever possible. Perfect.(...) Thank you for the insight. I appreciate it. My pleasure. Thanks for that golden nugget. Yeah, so that's it. So anybody who has a question that you'd like to know that you're not getting answered and you want some truth behind it, feel free to email us that question at gds at gdswealth.com. Thank you.

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