Tax Savvy Philanthropy

ALLODIUM
INVESTMENT CONSULTANTS

CASE STUDY

Challenge

Allen spent the last few years of his career as a senior executive at a thriving engineering and sales firm. He earned a generous salary at the company and was even able to donate to a few charities that were important to him. Under his strategic leadership as Vice President of North American Sales, profits in the sales department grew by 30%. As a thank you for his hard work, Allen was awarded a $1 million dollar bonus at the end of the calendar year. Allen was delighted to receive the bonus, though he knew that he had more than enough money to provide for his wife Anita and their three children. In addition, he worried about the tax implications because he knew that in his state, he would have to pay federal and state taxes that totaled almost 50% of the entire bonus. Allen wondered if the bonus could be used to increase his donations to charity instead. Although he already donated to a few charities, he wanted to take time to research additional ones before he would be ready to donate $1 million. Allen scheduled a meeting with his financial advisor at Allodium.

Recommendation

Allodium recommended that Allen and Anita set up a Donor Advised Fund with a public charity and donate $1 million to bring an instant tax savings of $500,000. Allodium explained that the Donor Advised Fund would hold and invest the funds until they were ready to identify the charities that would receive the donations. With this plan, Allen and Anita would get the advantage of the tax savings in the current year, yet they could donate to their charities of choice at any time in the future. To further maximize the tax savings, Allodium suggested that instead of donating the funds Allen received from his bonus, he should donate $1 million from an existing stock investment account that had $300,000 in long-term capital gains. This strategy eliminated the need to pay taxes on the $300,000 of capital gains, saving an additional $45,000 in taxes. The bonus money would then be available to repurchase securities, replenishing the funds withdrawn from his stock investment account. This plan allowed the full $1 million contributed to the Donor Advised Fund to be available for giving at an unspecified future date, but the income tax benefits could be realized now.

Result

Allen and Anita are quite pleased to have been able to use the current tax laws to leverage his bonus to increase his gifts to the charities they support, while at the same time reducing their income tax burden. They saved a total of $545,000 in taxes. In addition, the Donor Advised Fund is not subject to estate tax and there are no annual distribution requirements. The fund is managed by the public charity eliminating the need for Allen to put time into the administration of the fund, yet he still retains the advisory privileges over how their account is invested and how the money is distributed. In fact, Allen and Anita have named their children to succeed them as donor advisors of the fund. The children have become very involved in the charitable designation decisions as they learn the value and lasting legacy of donating money to charity.