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DONOR ADVISED FUNDS MAKE PHILANTHROPY EASY, FUN

By Humberto Cruz
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The Sept. 11 terrorist attacks reawakened the spirit of generosity of the American people. Many who donated money to the families of the victims are now looking to help other charities. Even if you are not sure which one, you can still make a contribution by Dec. 31 and benefit from a possible tax break for 2001.

You can do it through a donor advised fund, so called because the donor, after making the contribution, advises or recommends which charity should get the money.

"Basically, donor advised funds separate the tax implications of the decision from the decision of which charity you want to support," said Philip T. Tobin, president of the American Endowment Foundation in Hudson, Ohio, a public charity that administers a national donor-advised fund program.

Although donor advised funds have been around for years, they are not that well known. Yet they are arguably the simplest, most flexible and cost-effective way for people of average means to practice family philanthropy.

"Donor advised funds make philanthropy easy and fun," Tobin said, by allowing donors to make charitable contributions without having to decide immediately how the money is to be used. "When you do this, you take a lot of pressure off the donors," he said.

A donor advised fund also is much simpler and far less expensive to set up and maintain than a private foundation or supporting organization, and it provides better tax breaks.

With a donor advised fund, you can donate money or, better yet, securities that have gone up in value such as stocks and mutual funds that the fund can then sell tax-free.

You as the donor get an immediate tax deduction for the full value of the donation (as long as you itemize deductions, and subject to Internal Revenue Service limits). You don't have to pay capital gains taxes on the increase in value of the securities, and the full value of your donation is removed from your taxable estate.

Once you make a contribution, you can't take it back. The money is deposited into an investment account where it grows tax-free until it is distributed to the charity the donor recommends.

"Donor advised funds are lowering the barrier to family philanthropy," Tobin said, with initial contributions often set up at $10,000. They're also one of the fastest growing tools of philanthropy in the United States. According to The Chronicle of Philanthropy, assets in the largest donor advised funds grew to more than $10 billion last year, an increase of 29 percent. The funds made more than $1.4 billion in grants in 2000, up 39 percent.

The best-known donor advised funds are those available through investment firms, such as the Fidelity Charitable Gift Fund (800-682-4438), the Vanguard Charitable Endowment Program (888-383-4483), the Schwab Fund for Charitable Giving (800-746-6216) and the T. Rowe Price Program for Charitable Giving (800-564-1597).

These donor advised funds pool contributions from donors to invest in a limited number of mutual funds. They provide educational materials for researching charities and review the recommendations the donors make for making grants, to make sure they comply with legal and tax requirements.

Among these funds, Fidelity is the pioneer and the biggie. Founded in 1992, it has attracted more than 27,000 donors and last January surpassed $2 billion in grants to not-for-profit organizations, making it the nation's largest public grant maker. With $2.3 billion in assets, it is also the nation's second largest charity, after the Salvation Army.

Other donor advised funds, such as Tobin's American Endowment Foundation (www.aefonline.org), are not affiliated with any financial institution. To contribute to these funds, donors typically go through a financial adviser who recommends how the contributions are to be invested. These independent funds do not normally pool donors' contributions.

Each type of fund may attract a different kind of donor. The affiliated fund may appeal to the do-it-yourself, no-load fund investor. The independent fund may be a better fit for the investor with a financial adviser who wants a wider range of personalized investment choices. Independent funds also often accept more types of assets as contributions, including limited liability partnerships and real estate.

Regardless of the type, donor advised funds offer middle-income Americans a way to give to others and have a say how the money is to be used.

"This is for people who say, 'I want meaning in my life,'" said Ann Allston Boyce, executive director of the T. Rowe Price program. "This is primarily for people who have a charitable intent. The tax deduction is icing on the cake."

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