April 2018

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Notices

Have You Set Up Your Security Question and Answer?
Over a year ago we set up a security question and answer in order to provide an additional layer of security when clients request funds from TD Ameritrade. This is useful in the event you call us requesting a transfer, but no one recognizes your voice. We can then use the security question / answer in order to confirm your identity and protect your funds. If you are not sure if you have set one up, please call our office.

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MALLARD ADVISORS LLC

Comprehensive Financial Planning & Wealth Management Solutions

THE QUARTERLY MALLARD CALL

Set Up an Alternative to a Private Foundation! Mike Tolliver

You don't have to be as wealthy as Bill & Melinda Gates in order to set up your own private charitable foundation. There is an alternative to a private foundation for those of us not as wealthy as the Gates called a Donor Advised Fund (DAF). What is a Donor Advised Fund (DAF)? Simply put, a DAF is your own private charity, funded in a lump sum or over time with cash or securities. You can then invest the dollars in your DAF and allow it to grow, or you can direct your DAF to donate some or all of the funds to the charities of your choosing whenever you decide.

At Mallard, we have been recommending DAF's for many years. However, DAF's were thrown into the spotlight as a result of the new tax legislation at the end of 2017. The sudden attention these accounts received led to a number of articles being published in December either praising or critiquing the use of DAF's. Like most things in life, it is not so much the tool but the use of the tool that determines whether or not a DAF is helpful. We will look at the features and uses of a DAF below to demonstrate the potential value brought to someone's financial world by this tool.

Features of a DAF
Why have DAF's become so popular? The main reason is that they allow the donor to choose the tax year ***when*** they take their charitable ***tax deduction*** without having to determine who the ultimate recipient of the charity will be. They can determine that later. The ability to determine the tax year of a charitable deduction provides the donor with a number of planning strategies that can provide significant value.

Many different custodians offer DAF's, but with so many custodians to choose from it is important to remember that not all DAF's are created equal. This chart compares the key differences between popular DAF custodians.

	Minimum Donation	Administrative Fees		Investment Fee Range	Minimum Grant
Fidelity Charitable	$5,000	First $500,000	$100 or .60%	.015%-1.03%	$50
		Next $500,000	0.30%		
		Next $1,500,000	0.20%		
		Next $2,499,000	0.15%		
Schwab Charitable	$5,000	First $500,000	$100 or .60%	.04%-.79%	$50
		Next $500,000	0.30%		
		Next $1,500,000	0.20%		
		Next $2,500,000	0.15%		
Vanguard Charitable	$25,000	First $500,000	0.60%	.04%-.17%	$500
		Next $500,000	0.40%		
		Next $29M	0.40%		

Continued

Set Up an Alternative...continued

Uses of a DAF

DAF's are low cost and simple alternatives to private foundations, but they are not for everyone. For instance, if you are not charitably inclined, then the value of creating a charitable account drops to zero. If, however, you do give to a variety of charities on a regular basis, then a DAF might be an excellent option for you. To evaluate who makes an ideal candidate for a DAF, let's consider a few of the virtues of these accounts.

Front-Loaded Giving

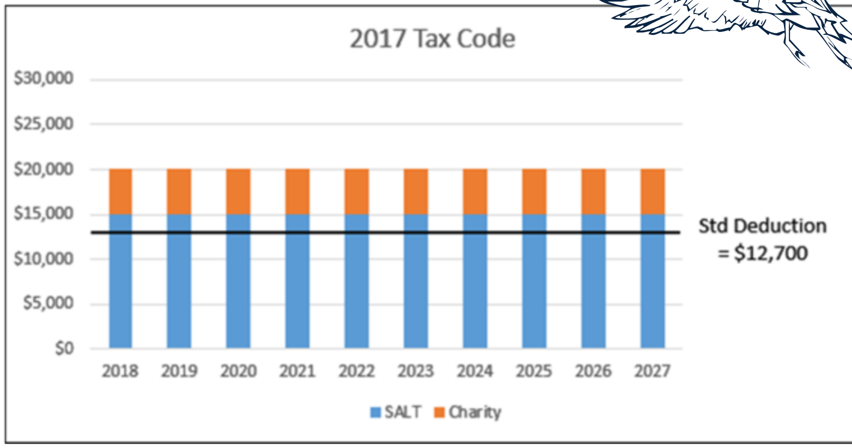
The 2018 tax code made two changes that put DAF's in the news. The first change was that it limited the deduction for state and local taxes (i.e., "SALT deductions") to a maximum of $10,000 per year. This ceiling severely impairs the ability to itemize deductions, especially considering the second change. In addition to capping the SALT deductions, the standard deduction was roughly doubled from $12,700 (MFJ) to $24,000 (MFJ) for those under age 65.

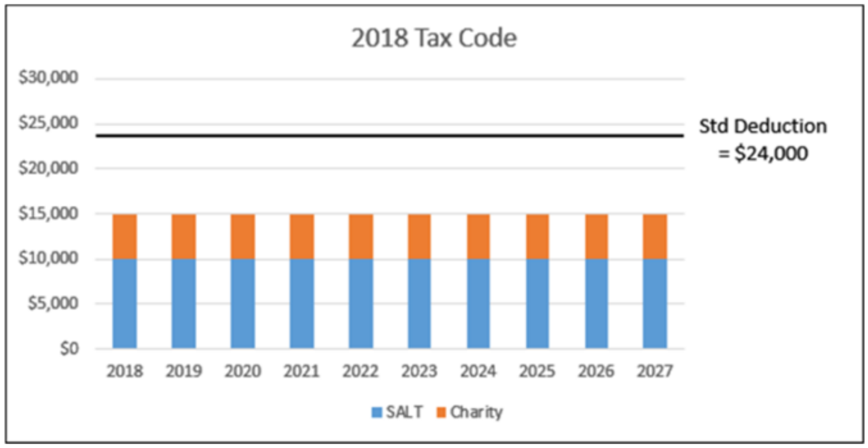
If, in ***2017***, you had $15,000 in SALT and $5,000 in charitable donations, the combination of those two items alone made it worthwhile to itemize your deductions because $20,000 is well beyond the $12,700 (MFJ) standard deduction as illustrated in the graphic below.

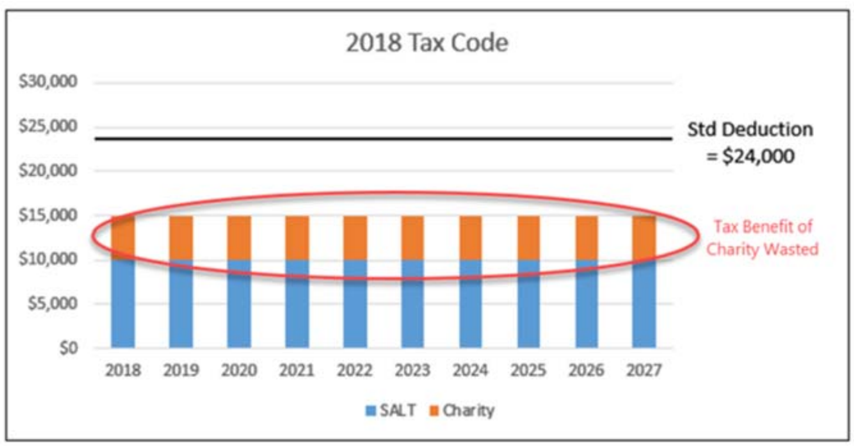
In ***2018***, however, the exact same scenario changes the deduction equation significantly. The potential SALT deduction of $15,000 is now capped at $10,000, so the addition of the charitable deduction of $5,000 provides a total deduction of $15,000.

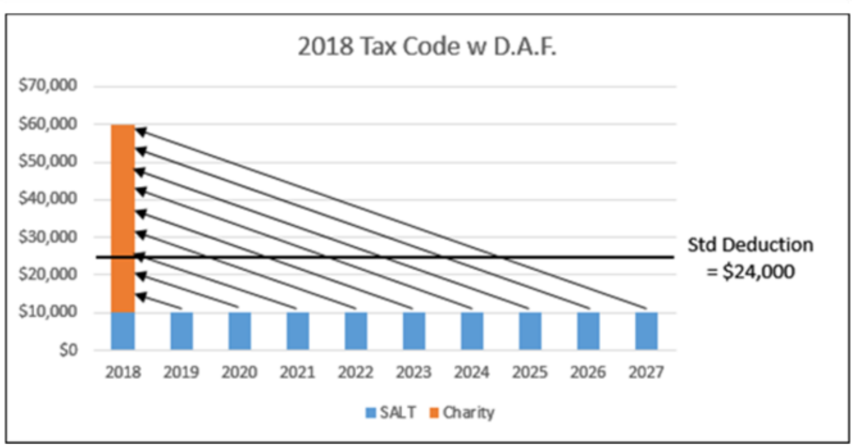
This is now well below the new standard deduction of $24,000 (MFJ) and completely eliminates the tax deductibility of the annual charitable gift.

Enter the Donor Advised Fund. The DAF allows a charitably inclined individual or couple the ability to front-load charitable contributions in a single year. Say, for instance, the same couple mentioned in the example above wanted to front-load 10 years of charitable contributions in a single year for the purpose of clearing the standard deduction. Their $5,000 annual gift becomes









a one-time contribution to the DAF of $50,000. This gift is reportable in the year the funds enter the DAF, so now the $50,000 charitable donation PLUS the $10,000 capped SALT deduction is well beyond the new standard deduction of $24,000.

The large itemized deduction in a single year can then be used to offset the taxes owed from other planning strategies which increase taxable income, such as a Roth Conversion. This strategy allows you to deduct most of your 10 year's worth of charity, AND still obtain the new high standard deduction in the subsequent years. This acceleration of charitable contributions via the use of a DAF results in an additional $36,000 worth of deductions taken in 2018.

The Value of a Front-Loaded Donation

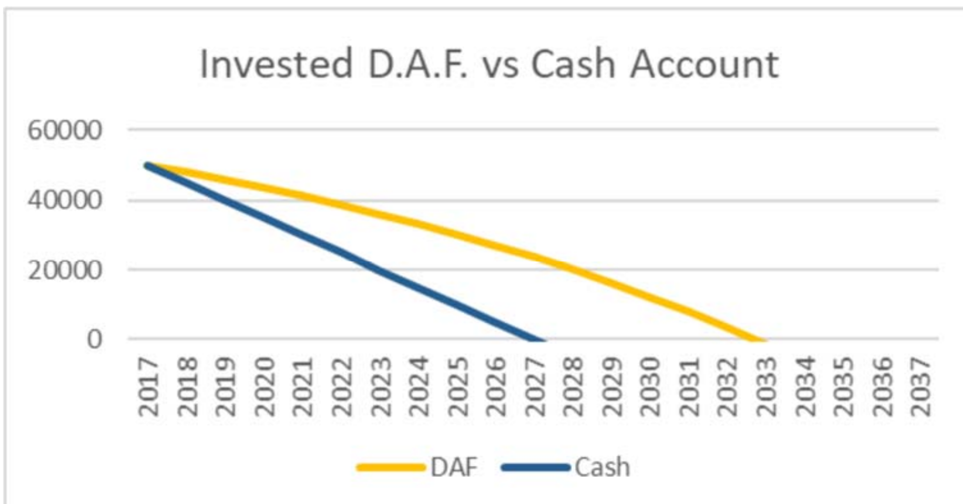
In the above scenario, if the couple donating $50,000 in 2018 is in the 32% tax bracket, then the front-loaded donation creates an additional $36,000 in deductions, saving this client $11,250 in taxes by lowering their taxable income. Furthermore, the deduction might be enough to drop the couple into the next lower tax bracket.

Appreciated Securities

In addition to the standard versus itemized deduction benefits discussed above, another consideration is the contribution type: cash or appreciated securities. Using the example above, if you wanted to contribute $50,000 into a DAF with cash, that contribution would cost you $50,000. If, on the other hand, you contribute securities worth $50,000 that have unrealized capital gains of $25,000, you avoid the federal (and state) capital gains taxes on these gains of about $5,000. Therefore, the cost of contributing securities is only $45,000 instead of $50,000.

Stretching Your Gift

Another benefit of a DAF is that it easily allows for the investing of donated dollars once in the DAF A $5,000 gift of cash compared to a $5,000 gift from an account that is invested demonstrates the potential to stretch the value of your charitable giving. Using the example above, a $50,000 gift invested with an expected rate of return of 6% takes 15 years to deplete while making $5,000 annual gifts. Compare that to gifting $5,000 per year from a cash account, and the $50,000 balance would be depleted in 10 years.



Coordination with Other Strategies

Beyond the initial benefits just listed, the front-loaded gift of $50,000 also allows the donor to consider creating $50,000 in income to soak up the new deductions. A Roth Conversion, for instance, would be one way to take advantage of this now lower taxable income created by the DAF contribution. The dollars invested in the DAF and Roth IRA would never be taxed again, and the converted funds from the IRA will never be subject to Required Minimum Distributions for the life of the account owner.

These benefits and planning strategies really cannot be quantified apart from a specific set of circumstances, but doing them all in conjunction can create wealth.

Estate Planning

Another important point of consideration for a DAF is that the gift of cash or securities into a DAF is considered a completed gift for estate planning purposes. This means that the assets are technically outside of the donor's estate, even though the account is advised by the donor on how to donate the funds. Many people who are charitably inclined bristle initially at the thought of sending a significant portion of their wealth outside of their estate. And worse, what happens if the donors die the year following a sizable gift into the DAF?!

While these are valid concerns, two things must be remembered:

1. You can name a beneficiary of the DAF This has powerful estate planning implications. For instance, if you have sizable assets that will be given to an heir at your passing but are concerned about their spending habits, you can bequeath a DAF as a means of encouraging other-centered spending from beyond the grave.
2. If your heirs are charitably inclined, receiving a DAF as a beneficiary has the benefit of removing their charitable giving from their cash flow. In other words, the $5,000 they would have donated to charity directly from their own annual cash flow can now instead be donated from the DAF This has a net effect of putting $5,000 of wealth per year back in their pockets.

Charitable Deduction Limitations

One important caveat for the strategy of gifting to a DAF is the Adjusted Gross Income (A.G.I.) charitable deduction limitation. In most circumstances, there is a limit to the amount of charitable contributions that can be deducted in a single year. The limit in a given year for gifting ***securities*** is 30% of A.G.I., so a $40,000 donation in a single year would require an A.G.I. of at least $133,333 to deduct the whole $40,000 contribution in the current year. If the value of the gift is greater than the 30% limit, the balance gets carried forward to future tax years. As an example, consider the following situation:

- *Sally and John want to donate $40,000 of appreciated securities into a DAF, but their A.G.I. is only $100,000. Therefore, the amount they can deduct this year is limited to $30,000. This means that the $10,000 additional deductible amount gets carried over to the next year(s).*

The problem with this scenario is that the standard deduction is now $24,000 for a married couple under 65, and if a charitable deduction of $10,000 is rolled into the next year it might get soaked up by the standard deduction. So gifting into a DAF must be done with care, considering a number of variables to evaluate whether or not there is value added.

For the reasons listed above, Donor Advised Funds have become a compelling option for folks who are charitably inclined. If any of the scenarios listed above sound like they may apply to you, let us know and we can help you run the calculations to determine if a DAF contribution would make sense in your situation at this time.

Mike Tolliver is an Associate Advisor at Mallard Advisors, LLC

Total Return as of 3/31/2018

	March	YTD	12 Mo's	Annualized 3 Years	Annualized 5 Years
GLOBALLY DIVERSIFIED BALANCED PORTFOLIO**					
60% Equity / 40% Bond	(0.5%)	(0.7%)	9.1%	6.0%	6.8%
STOCKS					
Larger-Cap	(2.6%)	(0.8%)	13.8%	10.6%	13.1%
Smaller-Cap	1.1%	(0.2%)	11.7%	7.9%	11.5%
International - Developed Mkts	(0.6%)	(0.5%)	17.0%	6.8%	6.3%
International - Emerging Mkts	(1.2%)	2.0%	20.8%	7.3%	4.3%
Real Estate	3.8%	(8.2%)	(4.6%)	0.6%	5.6%
Inflation Hedges*	(1.3%)	(4.3%)	8.9%	3.9%	1.3%
BONDS					
U.S. Investment Grade Bonds	0.6%	(1.5%)	1.0%	1.0%	1.6%
Global Bonds	1.1%	0.9%	3.4%	2.3%	-

* Each asset class is represented by a relevant Vanguard Index fund except for Inflation Hedges where the Morningstar Category average for "Natural Resources" is used.

** The portfolio is represented by the DFA Global Allocation Fund (60% Equity / 40% Bond)