

# Donor-Advised and Pooled-Income Funds

## *Simple, Tax-Efficient and Cost-Effective Charitable Giving*

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### Overview

In 2010, Americans' total charitable giving increased 3.8% over 2009 to an estimated \$290.89 billion. The majority of that giving came from individuals and without this funding, many charities and non-profits would not be able to operate and provide vital services to our citizens.<sup>1</sup>

Despite the increase in giving, many Americans still are not giving as fully as they could be and may not be taking complete advantage of the various tax and estate benefits that planned giving can offer. Many are overwhelmed by the sheer mass of information and the daunting number of ways to give. Creating a long-term plan can help ensure that contributors get the fullest benefit from their generosity, in terms of both tax deductions and personal satisfaction.

### What is a Donor-Advised Fund?

If you are looking for a flexible and convenient way to give more effectively while maximizing the tax benefits of your philanthropic activities, you might consider donor-advised funds (DAFs). DAFs allow an individual or family to make an irrevocable contribution of cash, appreciated securities or, in limited cases, real estate and certain restricted stock, to a charitable account administered by a public charity. The charity pools the contributions, and according to the donors' recommendations, invests them and makes grants to charitable organizations.

You can recommend that grants be made to any of over 800,000 qualified charities and nonprofit organizations recognized by the IRS as eligible to receive tax-deductible contributions. Many established religious organizations and educational institutions are eligible to receive grants as well.

### Potential Benefits of DAFs

DAFs can offer a number of desirable tax benefits:

- Your contribution qualifies for an immediate income-tax deduction based on the full value of the contribution, as no capital-gains taxes are paid on any unrealized gains of long-term appreciated securities.
- While you take the tax deduction in the year you make your contribution to the fund, the money does not have to be granted to charities in the same year. You can recommend grants according to your own timetable, and your grants can even remain anonymous if you wish.
- DAF contributions are invested with the potential for tax-free growth, possibly allowing you to give more over time.
- You have the ability to select successors who can continue your charitable legacy by recommending grants beyond your lifetime. These contributions are separate from donors' estates and are not subject to estate or probate taxes.

Immediate income-tax deductions, tax-free growth potential, avoiding capital-gains tax on long-term appreciated securities, and reduced estate taxes are all potential tax benefits for you when you contribute to a DAF.

## DAF Versus Other Options

DAFs are becoming extremely popular because they combine many of the advantages of other charitable vehicles, without many of the complex administrative requirements. Below we briefly describe how DAFs compare with direct donations and private foundations.

- **Direct Donation.** A direct donation is the easiest option available. However, donors may be pressed to select a charity and make a donation before a year ends to obtain a tax deduction. DAF's tax benefits are recognized immediately, but grants can be recommended to charities at any time in the future.

Also, unlike some direct donations, DAFs can accept securities as contributions; a single DAF contribution allows donors to recommend grants to multiple charitable organizations; and multiple successors can be named to carry forward the legacy of charitable giving.

- **Private Foundation.** A private foundation gives you full control over your contributions, whereas all grant recommendations by DAF donors are subject to review and approval by the charity's trustees. However, a private foundation involves substantial expenses to set up and manage, full liability for IRS filing and compliance, required distributions of 5 percent of assets annually, and payment of an annual excise tax based on net investment income.

While DAF tax deductions are also subject to AGI limits, their allowed maximum is higher than the limit for private foundations. In addition, DAFs provide simplified and comprehensive administration, as well as consolidated reporting and record-keeping, and offer donors the choice of making grants anonymous.

DAF accounts also can be named in a way that reflects the contributor's interests – for example, "The John Smith Family Foundation" or the "Mary Smith Charitable Giving Fund."

Lastly, it is important to note that with DAF, the donor receives no income from the gifted assets and the charity's trustees have final authority on grant recommendations.

## What is a Pooled-Income Fund?

Like DAF, a pooled-income fund (PIF) is a tax-exempt trust maintained by a tax-exempt public charity approved by the IRS. The PIF is designed to provide the donor or designated beneficiary with a lifetime income stream from a diversified portfolio. After the death of the last income beneficiary, the charitable account receives the principal to establish a tradition of giving by the donor's account successor, or grants can be made to charities designated by the donor. PIFs are charitable vehicles that are not investments and are not intended for investment use. The activities of each PIF are subject to the terms and conditions of the PIF's documents, which should be reviewed by your tax or legal advisors before you establish a PIF.

A PIF can be used by individuals who own appreciated securities and are looking for more income, often during retirement, but do not want to pay capital-gains taxes when repositioning those assets to produce income. Assets contributed to the PIF are irrevocable and allocated into diversified income-producing pools. No capital-gains taxes are paid – so the entire value of contributed assets is used to generate income to you for life. You may also receive a current-year tax deduction based on the size of the gift, the age and number of income beneficiaries and the rate of return of the Fund. The income may vary, it is taxable, and any tax deduction is subject to AGI limits like a DAF. Keep in mind that unlike a DAF, a PIF can make grants to charities only after the death of the last beneficiary, and in some cases, there may be an additional waiting period after that.

## Charitable Gift Fund Programs Available Through Wells Fargo Advisors

### **Eaton Vance—The U.S. Charitable Gift Trust™**

The U.S. Charitable Gift Trust's Trustee is the Capital Trust Company of Delaware. Eaton Vance, founded in 1924 and today one of the nation's largest investment managers, is the Gift Trust's administrator and investment manager. The U.S. Charitable Gift Trust™ is an IRS-approved, tax-approved, tax-qualified public charity that receives donations from Americans nationwide and makes gifts to charities recommended by its donors. Gifts made to the Gift Charitable Giving Account™, a donor-advised fund, are invested in a diversified investment portfolio composed of four investment pools of established mutual funds managed by Eaton Vance.<sup>2</sup> There are three Pooled Income Fund Portfolios managed by Eaton Vance as well.

### **Franklin Templeton Charitable Giving Fund**

Franklin Templeton Charitable Giving Fund is a donor-advised fund offered by Franklin Templeton Investments in conjunction with the National Philanthropic Trust (NPT). NPT is an independent, 501(c)(3) public charity that helps individuals pursue their philanthropic goals while maximizing their assets.<sup>3</sup> Franklin Templeton provides the professional investment management for Franklin Templeton Charitable Giving Fund. As a donor, you can recommend that your contribution be invested in one of three predefined investment strategies, or you may create your own investment strategy. All strategies are executed with Franklin Templeton mutual funds.

## Talk with Your Financial Advisor

Donor-advised funds and pooled-income funds simplify and consolidate giving in a tax-smart way, and PIFs provide additional current income. To learn more about simplifying your philanthropy and perhaps making it go further, ask your Wells Fargo Advisor about charitable gift funds. It is also a good idea to consult your legal and tax advisors about the implications of charitable giving.

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<sup>1</sup> Source: Giving USA Foundation – AAFRC Trust for Philanthropy/Giving USA 2011

<sup>2</sup> Eaton Vance Distributors, LLC is a professional charitable fundraiser and a for-profit firm and is soliciting contributions to The U.S. Charitable Gift Trust™, for which the Trust pays compensation. One hundred percent of all contributions are received by the Trust.

<sup>3</sup> Contributions to Franklin Templeton Charitable Giving Fund are irrevocable and are made to the National Philanthropic Trust (NPT), a public charity that administers the fund. Franklin Templeton Charitable Giving Fund is subject to the terms and conditions of NPT's articles of incorporation and bylaws. NPT's Board of Trustees reserves the right to modify the fund at any time.

**Mutual funds are sold by prospectus. Please consider the investment objectives, risks, charges and expenses carefully before investing. The prospectus, which contains this and other information, can be obtained by calling your Financial Advisor. Read it carefully before you invest.**

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