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MidWestOne™ PRIVATE WEALTH

MWO PRIVATE WEALTH TEAM

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Enhance Charitable Giving with Donor Advised Funds

Charitable giving holds personal significance for many, yet without intentional structuring, valuable tax benefits could go unrealized. One of the most flexible and efficient tools for strategic charitable giving is the Donor-Advised Fund (DAF). DAFs provide a foundation-like structure, but with far less complexity and cost.

Understanding the Standard Deduction Limitation

For the 2025 tax year, the standard deduction for joint filers is $30,000. To receive a tax benefit from itemizing, total deductible expenses such as state and local taxes (SALT), mortgage interest, and charitable contributions must exceed this amount.

Consider a woman who donates $20,000 annually to her local community foundation, owns her home outright (so no deductible mortgage interest), and has $8,500 in real estate deductions. Despite her generosity, her total deductions fall short of the standard deduction, meaning no additional tax benefit is realized from her charitable giving.

Leveraging a Donor-Advised Fund

One effective strategy is to “bunch” multiple years of charitable giving into a single year by contributing a larger amount, say $100,000, to a DAF. This approach allows the donor to surpass the standard deduction threshold and receive a more meaningful tax benefit in the year the contribution is made. Grants to charitable organizations could then be made gradually over time through the DAF.

Control and Flexibility

This poses the question, why not give the $100,000 directly to the charity? Many donors prefer to spread their giving over several years, ensuring steady support, staying involved in how funds are used, and retaining flexibility should an organization’s mission or leadership evolve. A DAF offers that flexibility, giving donors time to make thoughtful decisions while securing the tax benefit upfront.

Gifting Appreciated Assets

DAFs also simplify the process of donating appreciated securities, enabling donors to avoid capital gains tax and receive a deduction for the asset’s full fair market value. While donating stock directly to a nonprofit is possible, many organizations lack the infrastructure to manage the process efficiently. A DAF offers a more streamlined and reliable alternative for handling appreciated assets.

Tax Law Perspective: Tax Cuts and Jobs Act {TCJA) and the Future of DAFs

The TCJA reshaped the charitable landscape, creating both challenges and opportunities. By significantly increasing the standard deduction and capping SALT deductions at $10,000, the TCJA reduced the number of taxpayers who itemize - making it harder for many households to benefit from annual charitable deductions. However, the TCJA also raised the Adjusted Gross Income (AGI) limit for cash contributions to DAFs from 50% to 60%, resulting in more substantial deductions for large donors.

From a planning perspective, these changes significantly enhanced the strategic value of DAFs, particularly for affluent households. Although the TCJA is currently set to expire after December 31st, 2025, momentum in Congress suggests that an extension of relevant provisions is likely. If enacted, the continuation of these tax provisions would preserve a favorable environment for strategic charitable planning, including the use of DAFs.

Looking Ahead

If you're anticipating a high-income year - due to a business sale, large bonus, or retirement distribution - a well-timed contribution to a OAF could be an effective way to offset taxable income while supporting your longterm philanthropic goals. As legislative developments unfold, our team is here to help you evaluate whether a OAF aligns with your broader financial strategy.