

Are Charitable Gift Accounts Right for You?

Charitable gift accounts are popping up at major mutual fund companies and may be a good idea for individuals looking for a tax-advantaged way to support their favorite charities, improve their estate tax situation or bring more order to their gift-giving strategy. These are not necessarily inventions for the rich – some of these funds can start with an initial contribution of \$10,000 and allow additional contributions of as little as \$1,000.

Charitable gift accounts offered by the mutual fund companies come in two varieties -- donor-advised funds or pooled-income funds. Donor-advised funds allow a donor to deposit a specific amount in the fund for an immediate tax deduction equal to the full value of the contribution, allow the donor to direct the investments within the choices provided by the fund and then direct where the money is given over time. Pooled-income funds, meanwhile, allow the donors to receive lifetime income from the funds' investments while allowing the value of the account to go to designated charities after the last designated beneficiary dies.

Depending on a donor's particular situation, these two options can be a relatively attractive idea depending on whether the donor's focus is on obtaining the maximum tax deduction or retaining income for life. That's why it's a good idea to discuss either option with a trusted financial adviser such as a CERTIFIED FINANCIAL PLANNER® professional to see if either of these choices or other tax advantaged charitable options are right for you.

Some general points about these options:

Know the kinds of assets you can deposit: Most funds will allow you to deposit cash (by checks), publicly traded stocks, bonds and mutual fund shares and, in some cases, life insurance policies. Highly appreciated securities are often a good choice since the tax deduction is based on the fair market value of the asset.

You can reduce the overall size of your estate: In 2009, the estate tax exclusion amount is scheduled to be \$3.5 million, but, without further Congressional action, it is set to be repealed in 2010 and re-set at \$1 million in 2011. No one can know the future, but for taxpayers with significant estates, charitable gift funds might be a good way to reduce the size of a taxable estate.

You need to keep an eye on fees: These are not passively managed accounts, so you will probably be paying higher fees than the average index fund or similar pooled investment. Always consider management fees when considering any potential benefits. However, this option is typically cheaper than starting your own foundation or similar charitable giving vehicle.

This decision is irrevocable: Understand that your gift is final. Because of the tax-advantaged treatment, you're not going to be able to reverse this decision if you find you need the money later. Give careful consideration to how prepared you are for retirement and long-term care spending before you make this choice.

Watch the IRS: The Pension Protection Act of 2006 attempted to tighten some of the rules for donor-advised funds, and has directed the Internal Revenue Service to investigate these funds' personal uses in more detail.