

## DAF

If you're feeling charitably inclined, I wanted to bring your attention to something called a [Donor-Advised Fund \(DAF\)](#). Now that you have taxable brokerage investment account holdings with long-term gains (long term=held for 1 year+), this is a tax strategy worth considering. Here's an example: Let's say I bought a share of ABC company for \$100 in 2021 (more than a year ago), and now, in 2023, it's worth \$150. Normally, if you sell the stock and realize this \$50 gain in a taxable brokerage account, you'll be subject to 20-30% in capital gains taxes at the time of sale. However, if you donate directly to a charity or your own DAF, you can typically take an income tax deduction for the full market value of the share (in this example, \$150), and skip paying the capital gains taxes.

So the goal is typically to donate shares with larger unrealized capital gains, to optimize the tax benefit. Then, if you have the cash (which you would have, in theory, otherwise donated directly to charities), we would look to restore the donated shares in the portfolio by simply buying back the same company/quantity of shares. This would effectively leave the portfolio in-tact/in-balance and reset the cost basis of the shares at the current market value.

Building on the above example (ABC company purchased @ \$100/share in 2021, now valued @ \$150/share), let's say you decided you want to make \$1500 worth of donations in 2023. We could donate or fund a DAF with 10 shares of ABC (current market value \$1500), but using shares we only paid \$1000 for in 2021 (and therefore 'skipping' exposure to an otherwise taxable \$500 gain on those shares).

If you're not yet sure which charities to donate to, but want to capture the income tax deduction in current year, a DAF is probably the way to go. You can transfer the positions you wish to donate into the DAF, take the full tax deduction in the current year, but then defer the decisions on how much and to which charities, to future years. If the DAF contributions are likely to sit for a while, you should consider investing the funds once inside the DAF, and pursuing additional growth on those contributions for potentially even larger donations to charities down the line.

DAF contributions are particularly advantageous for our clients who don't otherwise have enough deductions to itemize on their tax returns (and are therefore limited to the standard deduction of \$13,850 for single filers & \$27,700 married filing jointly). This is often the case when clients have little to no mortgage interest to deduct (because the state income tax + property tax deduction is now capped at \$10k). In many cases, and sometimes without realizing it, charitable contributions are not actually deductible because they can't be itemized. So one strategic solution is to do something called donation 'bunching' in which you deliberately consolidate tax-deductible charitable contributions that would normally be made over multiple years, into a single tax year, to be able to itemize and *actually* qualify to deduct the donations from taxable income. For example, let's say you're single, your home is paid off (no mortgage interest to deduct) and you're maxed out the \$10k cap on the deduction for property taxes + state income taxes (aka 'SALT' cap), and you typically donate \$3000/year to charity. The issue is that you're not 'clearing' the standard deduction of \$13,850, and therefore, none of your \$3000 in donations is additionally deductible, and that will likely remain the case each and every year going forward. So the solution might be to instead make 2-3 years of donations at once in a single tax year (in this example \$6000-9000), and itemize @ \$16k or \$19k total deductions (rather than being capped @ \$13,850 standard deduction).

One other point to make is that even if you know which charities you want to donate to, we'll still probably recommend a DAF as a 'conduit' for your charitable giving, so you can capture an immediate, aggregate deduction for the current tax year, and then make the donations at your convenience. Fidelity Charitable will send all grant funds directly to the charity grant recipients.

If you are interested in making 2023 charitable donations of appreciated shares from a taxable brokerage account under Marathon management, we ask that you **please immediately follow the steps below to establish a DAF, and let us know of your intention and amount of donation by Friday, December 8<sup>th</sup> 2023 at the very latest (to allow us time to identify optimal shares for donation, and facilitate transfer to the DAF).**

- [Open a Giving Account](#)
  - Open now
  - Enter info/Account successor (whichever spouse is opening the account will just put the other spouse as successor)
  - Check the box next to "I would like to make contributions from a Fidelity brokerage account"
  - Let us know when you have an account #