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INDEPENDENT WEALTH MANAGEMENT SOLUTIONS™

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INDEPENDENT WEALTH MANAGEMENT SOLUTIONS™

Fee Only Wealth Management

Donor Advised Funds provide control, yet allow for tax breaks

People who have made enough money that they can afford to give some of it away typically want to control who receives their charitable gifts. An increasingly popular way to do so is through a donor-advised fund under the auspice of a public charity.

Donors can always control their giving by donating directly to their favorite charities. But that can mean considerable paperwork in the case of multiple donations, restrictions on what you can donate (your church may not be able to handle stock, for example), lack of future control, and often no creation of a legacy or involvement of your children. A private foundation can overcome these limitations, but it faces other difficulties, including payout requirements, high set-up expenses, annual tax reporting and increasing IRS scrutiny. That's why many donors are finding that donor-advised funds provide a happy medium.

Here's how they work

A donor-advised fund is a fund in your name created inside a public charity. You make an irrevocable charitable contribution in cash, marketable securities or mutual fund shares. You may or may not be able to donate real estate, limited partnerships, artwork or other type of asset. The charity sells the assets and reinvests the proceeds in a managed portfolio. You receive an immediate federal (and sometimes state) tax deduction for the full value of your donation. For example, if you donate stock that you bought at $10 a share that is now worth $50 a share, the deduction is worth $50 a share as long as you've held the stock for at least one year. As a bonus, you don't pay any capital gains taxes on the appreciation.

The main tax restriction is that in the case of appreciated assets, you can't deduct more than 30 percent of your adjusted gross income in a single year. In the case of cash, you can deduct up to 50 percent of AGI. Any amount you can't deduct in a particular year, you can carry forward for five subsequent tax years.

After you make your donation, you can advise the managing charity on how much income or principal to distribute to which selected recipient charities, and when. For example, you might treat it as an endowment, giving away only the earnings each year. Or you can give away some or the entire principal. You can even wait several years, letting the money in your account grow, before making grants. The main restriction here is that the charities must be IRS-approved.

Be aware that for your donation to be considered a gift, it must be out of your control, which means that technically the charity has the authority to reject your grant recommendations. In practice, however, charities generally follow your "advice" unless it violates IRS rules, or the charity's own restrictions, such as the geographic restrictions of a community foundation.

You also can "advise" the charity how you want your donation invested. Usually the charity offers several types of mutual funds, including money markets, which range from low risk to choices that are

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more aggressive. In addition there are numerous Donor Advised Funds that allow you to use your current investment managers to design and manage your fund's portfolio.

Minimum initial donations are typically in the $5,000 to $10,000 range, though they can run much higher. Subsequent contributions can be much smaller.

A donor-advised fund offers several advantages. You may donate to several charities but your paperwork is condensed to a single report by the managing charity. You can, if you choose, donate anonymously. You have flexibility in timing the gifts. You can involve your children when making your grant choices, including having them assume control when you die. Most sponsoring charities, however, unlike private foundations, don't allow your fund to exist for more than one or two successor generations, though a few will allow it to exist in perpetuity.

Charities offering donor-advised funds come in several forms. The oldest are local community foundations. Since the mid 1990s, numerous mutual funds, religious groups, brokerage firms and other financial institutions have created separate charities to operate donor-advised funds. Some national independent foundations and national charities have also begun offering them.

> ***"Which type of charity is best for you?"***

Which type of charity is best for you? Financial firms make it easy to set up your fund and they have fewer restrictions, but they generally don't provide much advice on specific charities. Community and religious foundations can provide strong advice on local needs of your community.

One rollover per IRA? Not so fast

The Internal Revenue Code says that if you receive a distribution from an IRA, you can't make a tax-free (60-day) rollover into another IRA if you've already completed a tax-free rollover within the previous 12 months.

The long-standing position of the IRS, reflected in Publication 590 and proposed regulations, is that this rule applies separately to each IRA you own. Publication 590 provides the following example:

"You have two traditional IRAs*, IRA-1 and IRA-2. You make a tax-free rollover of a distribution from IRA-1 into a new traditional IRA (IRA-3). You cannot, within 1 year of the distribution from IRA-1, make a tax-free rollover of any distribution from either IRA-1 or IRA-3 into another traditional IRA. However, the rollover from IRA-1 into IRA-3 does not prevent you from making a tax-free rollover from IRA-2 into any other traditional IRA. This is because you have not, within the last year, rolled over, tax free, any distribution from IRA-2 or made a tax-free rollover into IRA-2."

Very clear. Clear, that is, until earlier this year, when the Tax Court considered the one-rollover-per-year-rule in the case of Bobrow v. Commissioner.

Bobrow v. Commissioner

In this case, Mr. Bobrow (anecdotally, a tax lawyer) did the following:

- On April 14, 2008, he withdrew $65,064 from IRA #1. On June 10, 2008, he repaid the full amount into IRA #1.
- On June 6, 2008, he withdrew

Team Update

What I did on my snow days in February:

It's been a busy few months for all of us here, and happily so. We've had tax information to proof and gather, client meetings and reviews, Investment Policy Committee meetings to participate in, and markets a bit less certain in the aftermath of 2013's solid gains. **Fred** and **Scott** managed to squeeze in a number of educational trainings at the Financial Planning Association's Mid-Winter conference in February, among others. We also held our annual Economic Update Forum at the World Forestry Center with Dr. Jerry Webman, Oppenheimer's Chief Economist, sharing with us the fruits of their economic analysis for the upcoming year.

As a little window in to the "secret lives" of our team, we thought we'd share with you just what each of us did during our two snow days last month.

Fred and Amy spent their time painting the interior of their home. After some tough painting days, they had accomplished a major portion of their total interior plans. While they were working hard, their kids decided that it was best that they played in the snow. Fred has also continued in his work at Oregon State, teaching their Financial Planning class to seniors.

Scott spent the snowy Thursday and Friday… well, working. He hails from snow country some of you might remember, and his close proximity to the office means that there is really no excuse. He reported substantial progress on those days and a blissfully quiet working environment. But, like the rest of Portland, he stayed fairly close to home on the weekend and caught up on his reading. When not "snowed in" Scott's been spending time aboard Amatheia preparing for the sailing season, and he reports at least one gusty sailing day so far this year.

In between ferrying the hummingbird feeder in and out to prevent it from freezing, **Jennifer** spent her time reading Eric Jay Dolin's "When America First Met China." She learned that otter pelts contain up to one million hairs per square inch, more than any other animal! The trade in otter pelts became a substantial industry in the Northwest Territories, and was one among many reasons America sought control over the region from European interests. She also finally finished the winter scarf she's been knitting for the past two years—just in time for the weather to warm back up!

One rollover per IRA *continued from page 2*

$65,064 from IRA #2. On August 4, 2008, he repaid the full amount into IRA #2.

Mr. Bobrow completed each rollover within 60 days. He made only one rollover from each IRA. So, according to Publication 590 and the proposed regulations, this should have been perfectly fine. However, the IRS served Mr. Bobrow with a tax deficiency notice, and the case went to the Tax Court. The IRS argued to the Court that Mr. Bobrow violated the one-rollover-per-year rule.

The Tax Court agreed with the IRS, relying on its previous rulings, the language of the statute, and the legislative history. The Court held that regardless of how many IRAs he or she maintains, a taxpayer may make only one nontaxable rollover within each 12-month period.

Strangely, neither the IRS nor Mr. Bobrow appear to have cited the Service's long-standing contrary position in Publication 590 and the proposed regulations.

> ***"The Court held that regardless of how many IRAs he or she maintains, a taxpayer may make only one nontaxable rollover within each 12-month period."***

So what's the rule now?

It's not clear, but taxpayers who rely on the proposed regulations or Publication 590 to make multiple tax-free rollovers within a 12-month period do so at their own risk. It's hoped that the IRS will clarify its position in the near future.

And don't forget--you can make unlimited direct transfers (as opposed to 60-day rollovers) between IRAs. Direct transfers between IRA trustees and custodians aren't subject to the one-rollover-per-year rule.

*The one-rollover-per-year rule also applies--separately--to your Roth IRAs. Roth conversions don't count as a rollover for this purpose.

Five investing tips

While we wish that the weather was always great, that equity markets always moved up, and that there was peace and prosperity all over the world, unfortunately, this is not the environment that we have today or have ever had in our world. We live in a complex and evolving world that is always changing. As a result, it can be very difficult to continue to be an investor during times of complex change.

With the uncertainty surrounding being an investor, here are some thoughts that could be helpful.

- Keep a positive perspective - As a long-term investor, you shouldn't panic when your investments experience short-term movements. When tracking the activities of your investments, you should look at the big picture. Remember to be confident in the quality of your investments rather than nervous about the inevitable volatility of the short term.

- Focus on the future - The tough part about investing is that we are trying to make informed decisions based on things that have yet to happen. While it is important to review past data as an indication of events to come, it really is the present and future that matter to investors.

- Adopt an investing outlook, rather than a trading outlook - While it can be enticing for an investor to try and turn a "quick profit" (trader outlook), this process can require many different risks that most investors are not willing to take. A "trader" tends to constantly evaluate their investments (which can carry the risk of distorted outlooks and emotional involvement) while an "investor" concentrates on the value and outlook of their investments. As Warren Buffett has stated in the past, "If you can enjoy Saturdays and Sundays without looking at stock prices, then give it a try on weekdays."

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About Scott L. Maxwell, CFP®

Scott L. Maxwell, CFP® has been in practice since 1993 and with The H Group since 2000. He specializes in retirement, income, investment and estate planning. In addition to client specific planning, Scott is a Vice President of The H Group and sits on the Investment Policy Committee. Scott is a charter member of the Financial Planning Association and past Board member of its local Chapter, and he's involved in several community and non-profit organizations in the Portland area.

About Fred L. King, CFP®

Fred L. King, CFP® is an Advisory Affiliate with The H Group and joined The H Group, Inc. in 2004. A graduate of Oregon State University with a degree in Business Administration, Fred has over 15 years of business experience in a variety of roles with several national firms. He specializes in retirement financial needs analysis, investment management, risk management and general financial planning for individuals and small business. Fred is a member of the Financial Planning Association (FPA). Over the last six years, Fred has been an educator and judge for Oregon State University's Lifetime Financial Planning Contest. Lastly, Fred has been a contributor to Money Magazine, Wealth Magazine, and FiGuide.

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Five Investing Tips *continued from page 3*

- Embrace diversification - As your mom may have stated, "Don't keep all of your eggs in one basket", we recommend the same discipline in regards to investing. Since the future is unknown, having investments within many different asset classes does help to reduce volatility. Diversification can be your friend during an unfriendly market environment.

- Be concerned about taxes, but don't let it dictate your investment strategy - The primary goals in investing are to grow and secure your money. You should always attempt to minimize the amount of tax you pay and maximize your after-tax return, but the situations are rare where you'll want to put tax considerations above all else when making an investment decision.

Our Blog

Each month we come across dozens of stories and ideas that might be useful for our clients. As a way to point those out and to help make sense on a variety of subjects, we've created a blog page on our website. Stop by and visit from time to time. There is even a "subscribe" option that will allow you to be notified via RSS about our latest updates. Go to www.pdxplanning.com and click on the blog tab!