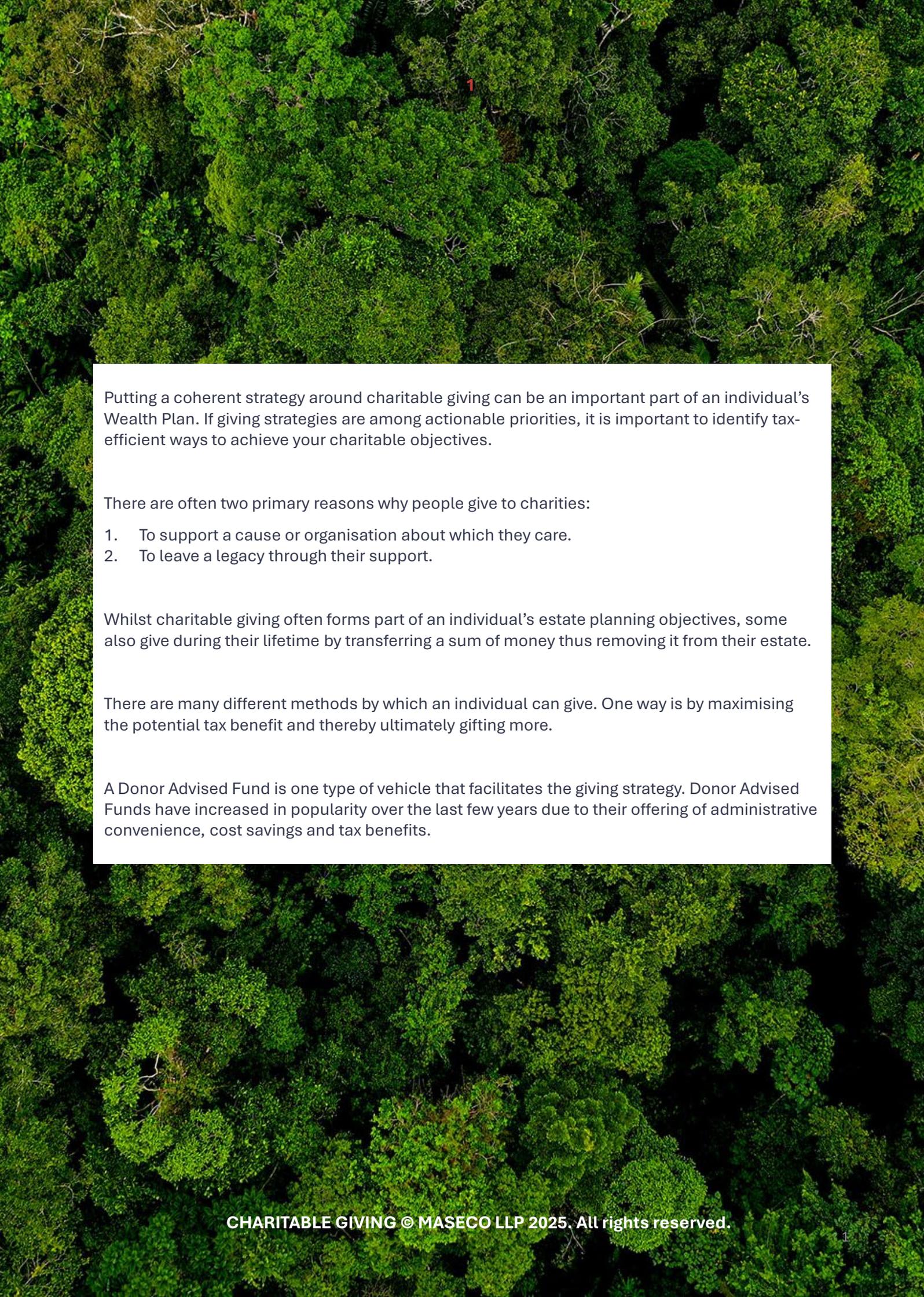


# Charitable Giving



Putting a coherent strategy around charitable giving can be an important part of an individual's Wealth Plan. If giving strategies are among actionable priorities, it is important to identify tax-efficient ways to achieve your charitable objectives.

There are often two primary reasons why people give to charities:

1. To support a cause or organisation about which they care.
2. To leave a legacy through their support.

Whilst charitable giving often forms part of an individual's estate planning objectives, some also give during their lifetime by transferring a sum of money thus removing it from their estate.

There are many different methods by which an individual can give. One way is by maximising the potential tax benefit and thereby ultimately gifting more.

A Donor Advised Fund is one type of vehicle that facilitates the giving strategy. Donor Advised Funds have increased in popularity over the last few years due to their offering of administrative convenience, cost savings and tax benefits.

## Ways to Give

Before exploring optimal strategies for US persons living in the UK, it would be good to review some of the different ways to give to charity.

1. **Give directly** - This approach is the most straightforward and simple. It involves donating money directly to a charitable organisation of your choice. Any tax benefit is received in the same year in which the donation is made.
2. **Use insurance as a vehicle for gift-giving** – If you do not have large sums of money to give during your lifetime and you hold a life insurance policy that is not needed for other important purposes, you could consider naming a charitable organisation as your policy beneficiary. This could result in a larger gift than you otherwise would have been able to make and potentially creates a longer-term legacy. However, serious thought must be given to this method and you should seek guidance from a financial adviser before any steps are taken. Even though the policy may be redundant in terms of the purpose for which it was originally taken out, there may be valuable benefits attached of which you are not immediately aware.
3. **Volunteer time** – Giving is not always about money. It can also be about getting involved by giving your time. Many organisations need volunteers to help deliver on their charitable goals. This can be a way to establish a personal connection and give in ways that require little or no money changing hands.
4. **Establish a trust to give money** - This is a longer term approach towards charitable giving. It will allow you to receive tax benefits today on funds allocated specifically for charitable giving but actual donations may be made at a future point in time. This may be a strategy for people who are asset rich but time poor and have not been able to decide to which causes they want to donate.

## What is a Donor Advised Fund?

A Donor Advised Fund, or DAF, is a charitable investment fund, administered by a public charity, that is formed for the sole purpose of supporting charitable organisations on behalf of an individual, a family or an organisation. It allows donors to make an irrevocable charitable contribution, receive a tax benefit immediately and then allocate charitable gifts from the fund at some point in the future. Gifts are made to a specified charity whenever they decide it is the appropriate time. While the gifts remain inside the fund, they are invested with an eye to grow the balance.

### **What are the benefits of a Donor Advised Fund?**

DAFs have a number of benefits. First, a DAF is a cost effective way for donors to maximise the tax benefits of making charitable donations to causes about which they care. A DAF can be set up with a relatively small amount of money (as little as £1,000 or £5,000) so an individual can choose to donate a lump sum or make small contributions in regular intervals over time.

DAFs have relatively few administrative responsibilities. There is generally minimal paperwork that needs to be completed, and quite often grants can be made directly online.

Additionally, DAFs are not subject to the minimum payout requirement each year. Private foundations, for example, must distribute at least 5% of assets annually. The fact that DAFs are not subject to this requirement leads to more flexibility on timing of distributions.

Another benefit of DAFs is that when donors decide to make a donation from the funds held within their DAF, it is possible to choose whether their donation is made anonymously or if their personal details are disclosed to the recipient.

One of the benefits that a DAF offers is not only the ability to receive a tax benefit upon funding the DAF but the ability to invest the pool of money and choose an organisation to donate to at a point in the future. So, if an individual can benefit from funding a DAF today but has not had time to decide which cause they would like to receive their gift, a DAF provides a mechanism to make that feasible.

Under current US tax law and practice, when donating to a US qualified charity ((a 501(c)(3) organisation), an individual can receive a US income tax deduction if they itemise their deductions as opposed to claiming the standard deduction. Under the new tax reforms and the higher thresholds for itemising deductions that have come into effect this year, making charitable contributions in lumps can potentially provide a greater benefit than in previous years. So, for example, if a 37% taxpayer contributes the equivalent of £100,000 into a US qualified DAF, the donation will receive a tax deduction of up to £37,000.

Similarly, when donating to a UK charity, currently the donation will qualify for UK income tax relief. In addition, the donation should qualify for UK Gift Aid which will increase the value of your donation by 25%. So, for example, if a 45% rate individual taxpayer contributes £100,000 to a UK qualified DAF, the donation with Gift Aid will be £125,000 and your additional claim back from HMRC would be £31,250.

### **How can a dual-qualified Donor Advised Fund be beneficial for Americans living in the UK?**

Many charitable organisations are considered to be qualified non-profit organisations in one jurisdiction or the other. As a result, giving directly to charities in either the US or the UK will often result in a tax benefit in only one country.

As Americans living in the UK are generally subject to income tax in both the UK and the US, there are advantages to ensuring that you receive a tax benefit in both jurisdictions for the dollars that you donate.

A dual qualified DAF allows individuals who are taxpayers in both the US and UK to receive tax benefits available in both countries. As such a dual qualified structure will ultimately allow the individual to allocate more money to their favoured charitable causes. Once the money has been donated to the dual qualified structure, it can then be directed towards charitable organisations and causes around the world without the need for the organisation itself to be dual qualified.

## Identifying an appropriate Donor Advised Fund provider

Awareness of DAFs and their rising popularity seems likely to continue as more people reach retirement and look for ways in which to give away some of their wealth in a tax efficient manner.

There are a number of charitable organisations that will facilitate DFAs for US/UK individuals. A few of the organisations are listed below:

- Charities Aid Foundation (CAF)
- Prism the Gift Fund
- National Philanthropic Trust (NPT-UK)

When deciding which organisation to establish a DAF with, it can be important to identify one that ultimately aligns with your own interests and values. Each charity has their own cost structure, investment options, minimum contribution requirements and account balances and varying ability to transfer the account to another institution. As the organisation will be trustee over the donated assets, the donor should make sure that the organisation will help facilitate their giving in the manner with which they agree.

While charitable giving is not all about receiving a tax benefit, we know that we are often limited in the amount we can give and would like to be able to give more if we had the ability to do so. Giving in a way that maximises the benefit to both the charity and the donor will help ensure that more assets ultimately reach the causes about which we personally care. Utilising a dual qualified DAF is one way to help facilitate this strategy and should be considered when assessing your charitable giving objectives.

### About the Author

Andrea Solana is Head of Advanced Planning at MASECO Private Wealth where she helps to provide financial planning and wealth structuring advisory services to US expatriates in the UK and British nationals in the US. Before joining MASECO, Andrea spent the first part of her career with a well-known Washington DC based international tax and global wealth management firm where she gained considerable experience advising high net worth individuals with multi-jurisdictional financial interests to design and implement strategies for tax-efficient and risk-managed asset growth. She has written numerous white papers regarding fundamental financial planning and investment strategies for U.S. connected individuals and has previously been a speaker on financial planning topics at numerous places including both The World Bank and International Monetary Fund (IMF)

Andrea graduated from University of Virginia's McIntire School of Commerce with a degree in Finance and Management and completed her MBA at Imperial College London.



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