Mercy Home for Boys & Girls
DONOR ADVISED FUND
(MHBG Donor Advised Fund)

SINCE 1887
MERCY HOME FOR BOYS & GIRLS

Donor Advised Fund vs. Private Foundation:

Charitable Contribution Reference Guide

Mercy Home for Boys & Girls Donor Advised Fund (MHBG Donor Advised Fund) is a qualified section 501(c)(3) organization and is classified as a public charity. A contribution to MHBG Donor Advised Fund is eligible for a charitable deduction from your federal income tax. A charitable deduction also is available in many states that have their own income taxes.

There are many reasons why individuals make charitable gifts. Making a philanthropic commitment is usually motivated by a passion for the cause and a desire to help the organization achieve its mission. For many, though, tax planning will also play a significant role in the manner in which a philanthropic gift is affected.

When planning a charitable gift, donors can choose whether to make a present gift or a planned gift through a philanthropic vehicle. Gifts through philanthropic vehicles often provide valuable tax benefits on a current basis while deferring the time when a gift will be dedicated to programmatic support.

Both donor advised funds and private foundations offer a variety of attractive features, including the ability to set aside significant charitable funds now and distribute them later. However, the choice between the two vehicles often comes down to three words: simplicity, flexibility and taxes. We will explore more deeply the concepts of simplicity and flexibility in another whitepaper. Briefly, donor advised funds are far simpler than private foundations to create and to administer; donor advised funds impose no annual tax reporting requirements on their donors, while boards of private foundations must file complex annual information returns; and donor advised funds can offer greater flexibility in grant making than private foundations. Though less favorable for tax and administrative purposes, private foundations do allow the donor greater control over distributions.

The tax deductibility of contributions is a defining difference for many people. A gift to a donor advised fund can generate a bigger deduction for a donor than a gift of the same property to a private foundation. This is based upon two rules that limit the amount of charitable deductions that an individual may claim on a federal income tax return. First, the charitable deduction that an individual may claim in any given year is limited to a percentage of his or her adjusted gross income ("AGI") for the year. This is called a percentage limitation. Federal tax law generally permits higher percentage limitations for gifts to donor advised funds than for gifts to private foundations. To the extent that a contribution may not be deductible in the current year, the excess contribution deductions may be carried forward for up to five succeeding years.

Second, the value of a non cash gift often is higher for tax purposes when made to a donor advised fund instead of a private foundation. Gifts of non cash property usually are valued at either the property's fair market value on the date of the gift or the property's tax basis (which is often the amount the donor paid to acquire it). Aside from certain gifts of publicly traded stock, most contributions to private foundations are valued using the basis of the assets. However, donors may value a wide variety of gifts to donor advised funds using the assets' fair market value.

High-income taxpayers also may see their charitable deduction affected by the "Pease limitation," which reduces itemized deductions that a taxpayer who has income above a certain threshold may claim. The limitation for 2016 applies to AGI levels that exceed $311,300 for joint filers and $259,400 for individuals, indexed for inflation. This limitation applies to most itemized deductions, including the charitable deduction.

The chart below compares the deduction available for gifts to donor advised funds and private non operating foundations of different kinds of property:

TYPE OF CONTRIBUTION	CONTRIBUTIONS TO A DONOR ADVISED FUND		CONTRIBUTIONS TO A PRIVATE FOUNDATION	
	Amount Deductible	**Percentage Limitation**	**Amount Deductible**	**Percentage Limitation**
I. Cash	Amount Given	50%	Amount Given	30%
II. Long-term capital gain property (property held for more than a year that would generate long-term capital gain if sold)				
A. Publicly traded stock and mutual funds (a/k/a qualified appreciated stock)	Fair Market Value	30%	Fair Market Value	20%
B Bonds	Fair Market Value	30%	Basis	20%
C. Restricted stock[2]	Fair Market Value	30%	Basis	20%
D. Ownership interests in private companies (e.g., S corporations, partnerships and limited liability companies)	Fair Market Value	30%	Basis	20%
E. Real estate	Fair Market Value	30%	Basis	20%
F. Long-term capital gain property if election is made to reduce the amount of the deduction to basis	Basis	50%	N/A	N/A
G. Artwork and other tangible personal property, if the charity's use of the property is unrelated to its exempt purpose	Lesser of Basis or Fair Market Value	50%	Lesser of Basis or Fair Market Value	20%
III. Short-term capital gain property (property held for one year or less that would generate a short-term capital gain if sold)	Lesser of Basis or Fair Market Value	50%	Lesser of Basis or Fair Market Value	30%
IV. Ordinary-income property, such as inventory, depreciable property and artwork donated by its creator	Lesser of Basis or Fair Market Value	50%	Lesser of Basis or Fair Market Value	30%
V. Life insurance policy	Lesser of Policy's Value or the Donor's Basis	50%	Lesser of Policy's Value or the Donor's Basis	30%
VI. Commercial annuity[3].	Surrender Value	50%	Surrender Value	30%

[1] The information provided is based on federal tax regulations as of July 2015. Individual state tax regulations may differ.

[2] An appraisal may be required to determine the fair market value of restricted stock contributed to a donor advised fund, even if the stock is issued by a public company. In some circumstances, restricted stock given to a private foundation may qualify as "qualified appreciated stock" and be eligible for a deduction at fair market value.

[3] A person who contributes a commercial annuity contract to charity will recognize ordinary income upon the transfer equal to the difference between the cash surrender value of the annuity contract and the donor's investment in the contract.

Information contained herein has been obtained from sources considered to be reliable, but we do not guarantee their accuracy or completeness.

MHBG, in its discretion, may contribute property from time to time to Morgan Stanley Global Impact Funding Trust, Inc. ("Morgan Stanley GIFT") for the purposes of establishing "white label" donor-advised funds in the name of MHBG's own donors. MHBG would be the "Sponsor" of each such fund. Morgan Stanley GIFT is an organization described in Section 501(c) (3), of the Internal Revenue Code of 1986, as amended, and a donor-advised fund. Various divisions of Morgan Stanley Smith Barney, LLC provide investment management and administrative services to Morgan Stanley GIFT.

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