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INDIANOLA, Iowa (DTN) -- Sid Burkey wants to pass on to his children what his parents passed on to him -- not simply assets, but a family faith legacy in the Mennonite tradition. "The more mature you get, you look more at what really matters," said the 63-year-old livestock and crop farmer who farms with his brother, nephew and son-in-law in Seward County, Neb.

"With the ag prosperity surge in recent years, we've seen a significant growth in assets in a lot of farm operations. Now farm owners are asking, 'How do I manage my taxes; what do I do with this net worth?' There's a lot more meaning in life than 'stuff,'" said Burkey. "We've had some interesting inter-generational discussions."

As they looked for ways to share their good fortune, the Burkeys formed a "donor-advised fund" to maximize their flexibility in tax-planning and increase the impact of their charitable donations. They focus on programs that alleviate poverty and aim for a \$7-to-\$10 return for each dollar gifted.

A donor-advised fund is relatively easy to set-up, provides uncomplicated administration and offers a lot of flexibility for tax planning and gifting opportunities, said Walt Mozdzer, a certified financial planner with Syverson Strege and Company in West Des Moines, Iowa.

Flexibility is an important tax strategy for most farmers. Mozdzer said suggesting a donor-advised fund often starts with a tax situation. If a client typically gives to charity every year, Mozdzer recommends a donor-advised fund for its flexibility, especially for those with fluctuating annual income.

That fits the feast-and-famine that producers experience in farm incomes. "Sometimes it's close to the 11th hour -- near the end of December before we know how much we need to modify our income," said Burkey. "With a donor-advised fund, we can donate a load of grain or a load of hogs in December and then decide later which charity we want to give to. Alternatively, in some years we are able to make a substantial, last-minute cash gift, but we haven't defined exactly how we want to split our donation by the end of the year. We can drop our donation into our donor-advised fund and decide the gifting details later."

Mozdzer gave an example. "Let's say you generally donate \$10,000 a year. But in a good income year, you have \$50,000 to donate," he said. "You can put that \$50,000 in a donor-advised fund and then use that to gift \$10,000 per year for the next five years. You get a larger tax benefit in the year you need it and you still have money to donate if the next year is a leaner income year."



The Burkey family of Seward County, Neb., formed a "donor-advised fund" to maximize their flexibility in tax-planning and increase the impact of their charitable donations. Pictured from left to right are Peg Burkey and her husband, Sid; Sid's brother, Tim; and Tim's son, Brant Burkey. (DTN photo by Anthony Greder)

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If you gift a commodity to a donor-advised fund, you do not take a "charitable deduction" but rather you simply reduce your gross income on your Schedule F by the amount donated. In addition to income tax savings, this also reduces self-employment taxes.

You can also gift appreciated assets, such as land, to avoid capital gains taxes. And gifting depreciated assets avoids depreciation recapture, which is taxed at ordinary income rates.

WHAT TO LOOK FOR IN AN ADMINISTRATOR

In most cases, you don't need a large amount of money to start a donor-advised fund. Generally \$5,000 to \$10,000 can get you started, depending on the program. You can hook up with a local community foundation or a national foundation to administer your fund. "I describe it as 'renting space' or borrowing their tax-exempt status for your charitable fund," explained Mozdzer.

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Ask your estate tax adviser, financial planner or search online for donor-advised funds in your state. Besides local community foundations, the charitable arms of firms like Fidelity Investments, Vanguard Group and Charles Schwab are among some of the largest national fund managers.

There is a difference between an endowment fund and a simple donor-advised fund. In both, you can designate which charity receives money from your fund. However, with an endowment, you generally cannot gift more than 5% of the total in your fund in any one year. Some states offer extra incentives for endowment funds. But Mozdzer added that his clients generally prefer the flexibility of the donor-advised funds without the endowment limitation.



The Burkey family of Seward County, Neb., formed a "donor-advised fund" to maximize their flexibility in tax-planning and increase the impact of their charitable donations. Pictured from left to right are Peg Burkey and her husband, Sid; Sid's brother, Tim; and Tim's son, Brant Burkey. (DTN photo by Anthony Greder)

Which type of fund administrator you choose often depends on who is going to do the giving, said Laura Malone, vice president with American Endowment Foundation, a national, independent, donor-advised fund program.

"Usually, you want everyone engaged in which charity to give to. If Mom, Dad and all the kids are located in the same community, a local foundation may work best for them. If one or more of the children are living across the country, a national foundation can generally accommodate a wider range of charities," Malone noted.

Ask how the foundation will manage your fund's assets. Some foundations will manage the investment of the fund for you; others allow your financial planner to manage the money in the fund. How much the foundation does for your fund often determines its fees. Some only charge an administration fee. Others charge an additional asset management fee, if you want them to manage your fund. Still other foundations do not charge a management fee, but instead keep any appreciation built up in the fund.

HOW EASY IS IT TO MAKE GRANTS?

You also can stipulate how your donation will be recognized. "Some want to give anonymously to avoid their name being put in a database passed around to other charities," said Mozdzer. "One client who was a big supporter of 4-H once signed a big banner to thank the 'anonymous donor' that was really her. She got a big chuckle out of that."

One restriction to donor-advised funds is they cannot be obligated to fulfill a financial pledge. "You can use the funds to support a capital funding campaign, but they cannot be used to fulfill a pledge," explained Mozdzer.

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As with most financial planning, "unless you're really ready to pull the trigger, it's a really slow process," admitted Mike Miller, U.S. regional director for Mennonite Economic Development Associates. That's not because it is a complicated process. It's simply the inertia to do something different with your money.

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"Farmland owners are finding themselves in a wealth position they never thought possible. They don't trust their good fortune. So, it takes a while to wrap their mind around the fact they can afford to give more to charity," Miller noted.

"It's been an interesting generational process," said Burkey. "My parents included my brother Tim and me in their discussions of charitable giving when we were young. It was a very collaborative and rewarding discussion. Now we talk about what to give to charity with our children.

"There is some satisfaction and purposefulness in fulfilling those grant determinations from our donor-advised fund and demonstrating to our children that giving is important. I'm grateful that our family members and our key employees understand that 'giving back' to help others is important to us," Burkey said. "It gives our life and work purpose."

For more information on donor-advised funds, go to <http://bit.ly/...>

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