



Donor Advised Funds (DAFs): A Flexible Approach to Philanthropy

A Donor Advised Fund (DAF) allows individuals to make irrevocable charitable contributions to a sponsoring charity while retaining the ability to recommend grants to other qualified charities. This gives donors control over the timing and distribution of their charitable gifts while providing immediate tax benefits. DAFs are simple to establish, easy to maintain, and do not require the creation of a custom legal entity.

Mechanics of Donor Advised Funds

- A DAF is treated as a direct contribution to the sponsoring public charity for tax purposes.
- The sponsoring charity could be a community foundation, a large public charity (such as a hospital or educational institution), or a public charity associated with a major financial institution.
- Donors or their designees can recommend grants to qualified charities in amounts and at intervals of their choosing.
- After the donor's death, successor advisors may continue to make charitable grants.

Tax Benefits of Donor Advised Funds

- **Tax Deductibility:** Contributions to a DAF are tax deductible in the year they are made, with potentially significant tax advantages:
 - **Cash Contributions:** Deductions for cash gifts are allowed up to 50% of adjusted gross income (AGI).
 - **Securities and Appreciated Assets:** Contributions of appreciated securities and other assets are deductible up to 30% of AGI, with gifts of appreciated publicly traded stock generally deducted at fair market value. Gifts of non-marketable property (such as closely held stock or real estate) can also be deducted at full market value, in contrast to private foundations where deductions may be limited to cost basis.
 - Unused deductions may be carried forward for up to five years.





- **Avoidance of Capital Gains and Estate Taxes:** Donors can avoid capital gains taxes on contributions of appreciated property, and assets contributed to a DAF are excluded from the donor's estate, reducing estate taxes.
- **Tax-Free Growth:** Investments within a DAF grow tax-free, potentially increasing the amount available for future charitable grants.

Non-Tax Benefits of Donor Advised Funds

- **Flexibility:** Donors can recommend grants to charities of their choice at any time and in any amount. This flexibility allows donors to align their charitable giving with personal or family interests over time.
- **Promoting Family Philanthropy:** Donors can designate family members or friends as account advisors, allowing multiple generations to participate in the family's charitable activities.
- **Confidentiality:** Donors can choose to make their contributions anonymously, protecting their privacy while still supporting causes they care about.
- **Ease of Administration:** DAFs offer a streamlined alternative to private foundations, with lower administrative burdens and fewer reporting requirements.

Considerations When Choosing a Donor Advised Fund

When selecting a DAF, donors should consider the following factors:

- Whether the fund accepts non-traditional assets, such as closely held stock or partnership interests
- The number of individuals who may serve as advisors during the donor's lifetime or after their death
- Any distribution requirements set by the sponsoring charity
- Whether the sponsoring charity offers expert advice on grant recommendations
- Minimum contribution and addition requirements





Comparison	Donor Advised Fund	Private Foundation
Tax-Exempt Status	Public charity status shared with the sponsoring charity	Must establish separate tax-exempt status as a private foundation
Cash Contribution Deduction	Up to 50% of AGI	Up to 30% of AGI
Capital Gain Property Deduction	Fair market value deduction, up to 30% of AGI	Fair market value deduction, up to 20% of AGI
Donor Control	Donor recommends grants; final decisions made by the charity	Donor retains full control over investments and grants
Payout Requirements	None (except by charity's policy)	Must distribute at least 5% of assets annually
Start-Up Costs	No cost to donor	Requires substantial legal and operational costs
Minimum Size	Typically, \$10,000 to \$25,000	Substantial assets required, typically \$1 million or more
Administration	Provided by the charity	Managed by the foundation itself
Annual Costs	Minimal, typically set by the charity	Can be costly, including administration and auditing
Annual Taxes	None	Generally tax-exempt but subject to excise tax up to 2%
Annual Filings	None required; part of charity's reporting	Separate tax filings and reporting required

Conclusion

Donor Advised Funds offer a simple, flexible, and tax-efficient way for individuals and families to support charitable causes over time. By providing immediate tax benefits and the opportunity to grow charitable contributions tax-free, DAFs can play a critical role in achieving philanthropic goals while reducing administrative burdens. For those seeking a less complex alternative to private foundations, DAFs offer a compelling solution.

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