

Examining Donor-Advised Funds



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Making it Easy to Make A Difference

Americans donate billions to charity annually. If you give to charity, you need to know about one of the best tools to facilitate generosity: Donor-Advised Funds (DAFs).

DAFs date from the 1930s but did not become popular until the 1990s. DAFs act as vehicles for receiving gifts, often of appreciated stock, and then distributing cash grants to charities selected by the one making the donation. DAFs make the process of transferring appreciated stock and designating checks as simple as a bank's bill-paying system.

All DAF donors receive a tax deduction on the date of transfer. You can also transfer stock during one calendar year and receive a deduction even if the DAF completes distribution of grant money to a charity in a subsequent year. According to Internal Revenue Service rules, you calculate the value of your donation and the resulting fixed deduction based on the average of the high and the low market price on the day of transfer. *(You are responsible for computing this value.)*

After receipt, the stock you gifted is sold and the DAF, itself a charity, pays no tax on any capital gain realized. The proceeds may remain in cash or you may direct the DAF to invest those assets for potential further appreciation (usually in a professionally managed separate account).

Any subsequent change in the value of the account does not change the amount you can deduct on your taxes.

As the donor, you direct to which charities the DAF distributes assets. Officially, the DAF owns the assets and is not legally bound to use them as you direct, but it is exceedingly rare for a DAF to not follow the donor's advice.

Most DAFs also maintain a database of 501(c)(3) tax-exempt charities (based on those organizations' IRS 990 filing) from which you chose. After you suggest an amount to gift and a charity to receive the gift, the DAF vets and processes your suggestion to ensure the organization qualifies as a public charity under the IRS code. DAFs also handle all record keeping and due diligence and can protect your identity if you want to give anonymously.

Donor-advised funds are the fastest growing charitable giving vehicle in the United States, with more than 269,000 donor-advised accounts holding over \$78 billion in assets. To put that in perspective, the Bill and Melinda Gates Foundation has about \$39.6 billion in assets.

Besides consider a DAF, here are other ways to make your charitable giving more significant:

Focus your effort. Passionate giving is more sustainable than spreading donations to every good cause or everyone who asks. Consider focusing your donations to just a few charities. Think through why you are giving and what you feel passionate about.

Find bang for the buck. Fund programs that produce the greatest effect for the least money and focus on long-term positive outcomes.

Include the next generation. You can include your children in the giving process or even help them gift some of their own money.

Talk to Your Financial Advisor. If you're considering a DAF or want to learn more, give me a call so that we can walk through the process together.