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DONOR-ADVISED FUNDS

How to give & avoid bureaucracy.

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So, you'd like to make some major charitable contributions, but you don't want to create a family foundation - with its paperwork and management commitment and the possibility of squabbles. Is there an alternative?

Yes, there is. You could consider a donor-advised fund.

How does a DAF work? A donor-advised fund is a private fund established to manage charitable donations of individuals, couples, families and institutions. It is sponsored by a 501(c)(3) non-profit organization. The process of gifting through a donor-advised fund works like this.[1]

- You find a sponsoring organization offering a donor-advised fund. It could be a community foundation down the street; it could be a major investment firm that has started a non-profit charitable endowment.
- You make an irrevocable contribution of cash or securities to the fund.
- You get an immediate tax deduction.
- The fund invests the cash or securities in an account you create; the assets benefit from tax-free growth.
- While the fund has legal control over the irrevocable contribution you have made, you (or your representatives) advise the fund where the assets in your account should go and how they should be invested.
- The fund is the actual grant maker that writes the checks to the charities and nonprofit groups you recommend.[1,2]

DAFs offer control with flexibility. With these accounts, you don't have the hassles that come with running a private foundation, and you have the ability to advise that the fund make grants to the charities or nonprofits you think are worthy. (The fund makes the final decisions.)[3]

The standard tax deduction for donations to a private foundation is 30% of a donor's AGI. In a donor-advised fund, a donor can make additional cash donations up to 50% of AGI.[3]

Besides the tax deduction and the satisfaction of helping charities, what also makes donor-advised funds attractive is what you *don't* have to do. Since you aren't creating a private foundation, you don't have to establish tax-exempt status; you don't have to form a board that will have fiduciary responsibility and schedule board meetings; you don't have to pay out at least 5% of asset values for charitable purposes each year; you don't have to pay set-up fees to attorneys and accountants; you don't have to file discrete federal and state tax returns annually.[3]

DAFs are less expensive than private foundations. You may be able to open up an account in a donor-advised fund with as little as $5,000; minimums are usually in the neighborhood of $10,000-25,000. In contrast, it takes at least $1 million to start a private foundation.[3]

The IRS does watch donor-advised funds. There have been instances of non-profits, donors and families stretching the definition of these funds and accounts. The IRS has cracked down on some that appear to exist mostly to claim undeserved charitable deductions and amass tax-sheltered investment income.[1]

DAFs & private foundations are not mutually exclusive. In fact, sometimes it may be useful to have both.

For example, a decision might be made to shutter a private foundation. Those assets can be transferred to a donor-advised fund, as it is a qualified public charity. So even though the foundation is gone, the donor who spearheaded it can still go on making charitable gifts.[5]

Another example: a private foundation may want to make some anonymous grants. A complementary donor-advised fund gives a donor flexibility to decide if donations will or will not be anonymous on a grant-by-grant basis.[5]

So you might want to take a look at donor-advised funds. If you are looking for a way to make significant charitable contributions without the red tape and stress associated with creating and maintaining a private foundation, then this may be a great alternative.

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Citations.

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