

YOUR GUIDE TO DONOR ADVISED FUNDS

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How a Donor Advised Fund Works

All you need is a place, a name, and the initial grant—and you're ready to give.

Once you've decided on the parent charity it's time to give your fund a name and transfer the initial assets to establish it. Almost immediately, you're able to start advising the parent charity on how you'd like that money given away.

YOUTH DISCOUNT

Some aspiring philanthropists, such as children and young adults, may be working with a smaller budget than the usual minimum requirements. But there are still ways for them to open a DAF: Some sponsoring charities recognize the need to encourage giving and allow young people to open a DAF with a reduced minimum—sometimes as low as \$2,000.



THE INITIAL CONTRIBUTION

You open your account with an amount that must meet the minimum set by the parent charity. Often these minimums are \$25,000, but they can be lower or as high as \$100,000 or more. In fact, that limit may be one of the reasons you selected the parent charity you did.

You can amass the total required amount by combining several kinds of assets, such as cash, appreciated or restricted stocks, and real estate, but often the individual elements must be valued at a certain amount. Parent charities may impose these rules to streamline the process of liquidating the assets that aren't already cash, as that's their responsibility. In the case of appreciated securities, liquidation may be completed as quickly as the next trading day. Other, less liquid gifts may take as long as a few months or process.

After your initial gift, you can keep making additional gifts to increase the size of your fund. At most parent charities, you can give as often as you like, but the subsequent gifts must usually be of a specified minimum value.

WHAT'S IN A NAME

With a new DAF, you have two types of naming to do. First, you give the fund itself a name. Parent charities generally recommend that it include your own name, as well as an indication of the causes that you support—for example, The Erin Smith Wildlife Habitat Fund. But you can remain anonymous if you prefer and select a name that protects your identity.

Next, you name your advisers and your successors. An **adviser** assists you in recommending grants from the fund. **Successors** are named to take over all the fund's responsibilities at your death, including recommending grants and investments. Some parent charities allow you to name multiple successors who can either split the account equally or share responsibility jointly. Some may limit how many future generations can advise the fund.

THE PROCESS, A TO Z

- You select a parent charity and give the necessary initial amount (or more)
- The parent charity liquidates noncash assets and provides a letter for tax filing
- You name your fund, advisers, and successors

HOW OFTEN, HOW MUCH

You can recommend as many grants as you like each year, as long as they are for amounts that meet the minimum set by the parent charity, such as \$1,000 or \$5,000. One thing to keep in mind is that because the donation takes a less direct route than when you simply write a check, the transaction may take a little longer—often up to two weeks. So, if you are counting on a donation to be processed and received by a charity by a certain date—for example, in time for a certain event or calendar day, you will need to plan for the extra time it might take for the fund

to complete all the necessary transactions. This is especially true of end-of-year gifts, given during the busiest time for philanthropy professionals.



Distribute our gifts to these charities



Due diligence, in this context, means research or investigation to confirm or disprove presented facts, usually about an organization or charitable project. It is always a necessary step in completing a grant recommendation.

Your Donor Advised Fund		Statement of Activity January 1 - December 31	
Beginning Value	\$90,000.00	Net assets this quarter	\$147,300.00
Revenue		Grants Made	
Contributions	\$50,000.00	Wildlife Protection Organization	\$5,000.00
Interest and dividends from securities	\$9,000.00	River Cleanup Group	\$3,000.00
Unrealized and realized losses on investments	\$10,000.00	Literacy for Kids	\$1,500.00
Total	\$159,000.00	Memorial Hospital	\$250.00
Expenses		Homeless Coalition	\$250.00
Grants made	\$10,000.00		
Fees	\$1,700.00		
Total	\$11,700.00		

RECOMMENDING GRANTS

Once the fund has been created, you can begin to recommend grants that you would like to be paid out of your DAF account. This part of the process is what gives the DAF its name—the donor advises the parent charity on specific gifts to be made. The parent charity does due diligence on the charity you have named, to confirm its status as a legitimate nonprofit organization or purpose. The parent charity also needs to establish that your grant is not being used as payment for anything that will benefit you directly—such as membership dues, pre-existing pledges, or tuition.

If a recommended grant is not approved, the parent charity will inform you of the decision and the reason for it. In these cases, the parent charity will often help by suggesting related

or similar organizations where you might redirect your grant.

KEEPING TRACK OF YOUR GIFTS

One of the greatest benefits of a DAF is that all of the paperwork and record-keeping associated with charitable activity is managed by the parent charity. You receive statements, usually on a quarterly and annual basis, that detail the grants that have been made from your fund, as well as any gains earned on your fund's investments.

Not only does this document consolidate all receipts into one comprehensive statement, but it also can give you a perspective on your charitable giving—providing a snapshot of how much you are giving, and to whom. It's easier than trying to piece this information together from your checkbook register at year's end.

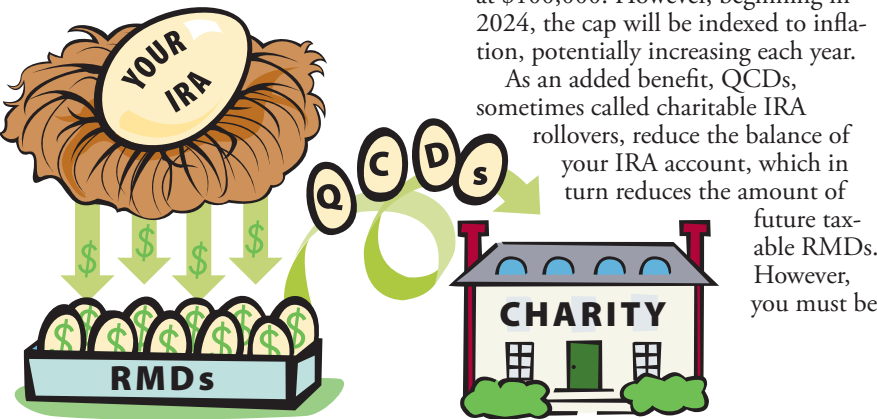
- You recommend an investment strategy for the fund
- You recommend a grant
- The parent charity does due diligence on the charity and makes sure the money is going for charitable purposes
- Once approved, the parent charity writes a check to the charity
- At the end of the giving period, you get a statement detailing this gift
- If the grant is not approved, the parent charity will inform you of the problem and may recommend a similar charity as an alternative

Other Ways to Give

DAFs are just one of several ways you might consider giving.

When most people think of charitable giving, they usually think of individual donations—giving money directly to a nonprofit organization. One shortcoming of this approach, sometimes called checkbook charity, is that it can be difficult to document and tedious to organize for tax purposes. It may also result in giving that's more haphazard than you'd like.

There are other more structured ways to give, some of which require a great amount of your time and energy—and some of which are as simple as naming a charity as a beneficiary of your will, or individual retirement account (IRA). But there is a great range in between, a range into which the donor advised fund falls.



QUALIFIED CHARITABLE DISTRIBUTIONS

Qualified charitable distributions (QCDs) allow you to contribute any amount up to \$100,000 of your IRA assets tax free directly to a qualified charity or charities each year. The amount of the total qualifying contribution, which is irrevocable, counts against fulfilling your required minimum distribution (RMD) and isn't included in your adjusted gross income (AGI).

For example, if your RMD for the year was \$65,000, and you chose to contribute that amount, the full contribution would be tax exempt. But if your RMD was \$110,000, your tax-free contribution would be capped at \$100,000. However, beginning in 2024, the cap will be indexed to inflation, potentially increasing each year.

As an added benefit, QCDs, sometimes called charitable IRA rollovers, reduce the balance of your IRA account, which in turn reduces the amount of future taxable RMDs. However, you must be

at least 70½ to use a QCD. So while RMDs may be made from inherited IRAs as well as from an owner's account, beneficiaries who inherit an IRA may not be old enough to take advantage of a QCD.

You arrange a QCD through the custodian of your IRA, typically making the request in writing by naming the recipient(s) and the amount(s) you want to gift. The custodian writes a check to each charity and mails the checks to you. You send a check to each recipient and request a receipt for your files.

The custodian of your IRA reports the distribution to the IRS on Form 1099R. Using form 1040, you report the full contribution on the line for IRA distributions, entering \$0 if the total distribution was a QCD. You can check the 1040 Instructions for additional information.

NEW QCD IN 2023
A new QCD, effective beginning in 2023, lets you make a one-time contribution of up to \$50,000 in a single year to a qualifying charitable remainder trust (CRT) or charitable gift annuity (CGA) to provide lifetime income.

PRIVATE FOUNDATIONS

Individuals or families making significant financial commitments to charitable causes often choose private foundations rather than QCDs or DAFs.

A private foundation is a legal entity with a board of trustees and a director plus his or her staff whose job it is to manage the assets in the foundation and make grants to other charitable organizations. The trustees have flexibility in choosing the programs the foundation helps to fund, and some beneficiaries may be 503(c)(3) charities but others may not.

Gifts to private foundations are irrevocable, and neither the donor or any of his or her heirs receive any assets or income from the foundation. Donors receive an annual tax deduction of up to 30% of AGI for cash donations and 20% of AGI for non-cash gifts, plus the potential for avoiding capital gains taxes on appreciated securities that have been held for more than a year.

Setting up and administering a foundation is more complicated, expensive, and time consuming than other ways to make charitable gifts. Among other things, a foundation must

pay out at least 5% of its assets each year in grants, pay a 1.39% excise tax on investment income, and file annual returns of income and expenses with the IRA. But for giving on a large scale foundations have many advantages.

CONTROL ISSUES

Donor control is arguably one of the few areas in which using a QCD or having your own private foundation gives you more flexibility. With a DAF, your role is limited to adviser, and the parent charity's board of directors has the final say on which grants are awarded, as well as on how your funds are invested. A private foundation does have full control over grants to charities as well as over other financial decisions.

OTHER GIVING CHOICES

Private foundations, QCDs and DAFs are not, of course, the only choices out there. Here are a few other ways to give:

Charitable remainder trust (CRT). The donor or other designated beneficiaries receive a fixed income or a percentage of the value of the trust's assets either for a set time period or for life. When the trust ends, one or more charities chosen by the donor receive the remaining assets. Income tax deductions, deferred capital gains taxes, and reduced estate tax liability are all advantages of a CRT.

Charitable gift annuity. The donor gives a gift of cash or assets to a charity in exchange for lifelong income for the donor or other beneficiaries. Upon the beneficiary's death, the charity receives the remainder of the assets. The donor benefits from an income tax deduction, prorated capital gains taxes on some gifts, and reduced estate tax liability.

Charitable lead trust (CLT). A donor's assets are placed in trust and income is paid to a charity for a set term. At the end of the trust, the remainder of the assets are returned to the donor or the donor's heirs. Gift, estate, and generation-skipping tax advantages may all be donor benefits.

Pooled income fund. Multiple donors give irrevocable gifts to a trust established by a charity. The combined gifts are invested, and donors receive proportional income distributions. When a donor dies, that portion of the fund goes to the charity. A portion of the contribution is eligible for income, gift, and estate tax deductions, and donors can avoid capital gains taxes on a gift of appreciated assets.

COMPARING DAFs, QCDs, AND FOUNDATIONS

While these organizations have many things in common, each has its own unique features.

	DAFs 	QCDs 	Private Foundations 
Reduce income tax	Yes	Yes	Yes
Donation of non-cash	Yes	No	Yes
Free set-up	Yes	Yes	No
Tax on investment income	No	No	Yes (1.39%)
Privacy of donations	Yes	Yes	No
Easy recordkeeping	Yes	Yes	No
Annual distribution required	No	No	Yes