

A Donor-Advised Fund (DAF) is a powerful charitable planning tool, especially for those looking for something that is easy to establish and offers flexibility in selecting charities and the timing of the donations. Let's explore how DAFs work, their advantages and other significant tax benefits they offer.

What Is a Donor-Advised Fund?

A donor-advised fund is a contractual arrangement with a sponsoring charity that allows donors to make irrevocable charitable contributions. While donors and their designees are not required to recommend grants, they retain the right to suggest grants to qualifying charities in any amount and frequency as specified in their agreement with the sponsoring charity.

How Does a DAF Work?

- A lifetime contribution to a DAF is treated as a direct transfer to the sponsoring charity for property law and tax purposes.
- Donations to a DAF are typically tax deductible up to 60% of adjusted gross income (AGI) for cash contributions and up to 30% of AGI for appreciated securities held for more than one year, with a five-year carryover. Gifts of appreciated publicly traded stock are generally deductible at fair market value, while gifts of non-marketable property are limited to tax cost.
- The sponsoring charity can be a community foundation, a large public charity, such as a hospital or educational institution, or a public charity created by and associated with a major financial institution.
- Since the sponsoring charity owns the DAF account, all earnings of the account appear on the tax return of the sponsoring charity. There's no need to file a separate tax return for the new entity.
- Upon the donor's death, successor advisors may continue to make grants to charities.

What Are Advantages?

- One key element of a DAF is the ability for donors and their designees to name family members and friends as "account advisors," thereby promoting family philanthropy.
- If desired, the names of individual donors or advisers can be kept confidential, and grants can be made anonymously.
- A DAF offers flexibility in the amount, frequency, and timing of donations to programs and charities of special interest.
- DAFs can be an excellent alternative to private foundations due to their ease of administration.

Additional Considerations

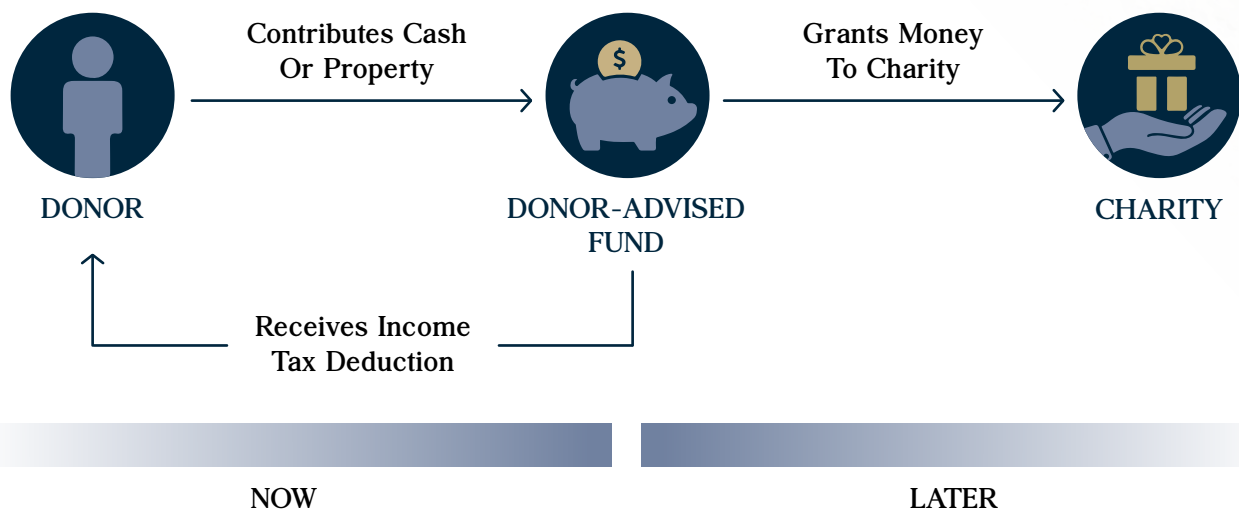
There are important differences among DAFs beyond fee structure and available investment options. Depending on your situation and charitable objectives, your financial professional can help when considering the following factors:

- Whether the DAF accepts non-traditional assets such as closely held stock or partnership interests
- The number of individuals who may serve as advisors during your lifetime or after your death
- The presence or absence of requirements to make distributions to the sponsoring charity
- Whether advice on grant recommendations is available from the sponsoring charity
- Minimums for contributions and additions

Donor-Advised Fund Scenario

Mary West and her husband Ted have two daughters. Their usual AGI is \$200,000. However, Mary will also receive a bonus of \$50,000. By contributing her bonus to a DAF and naming her family members as fund advisors, Mary begins cultivating a family tradition of giving. Since her contribution grows tax-free, the potential for future grant-making increases.

From a tax perspective, Mary and Ted offset their taxable income with a \$50,000 income tax charitable deduction. In the long term, Mary has removed the \$50,000—as well as any associated future earnings— from her taxable estate.



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