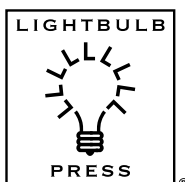


# YOUR GUIDE TO DONOR ADVISED FUNDS

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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 \$10,000 or \$25,000, but they can be 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 to 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, usually in the \$100 to \$250 range. 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 my gifts to these charities



## 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.

**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
<b>Revenue</b>		<b>Grants Made</b>	
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
<b>Total</b>	<b>\$159,000.00</b>	Memorial Hospital	\$250.00
<b>Expenses</b>		Homeless Coalition	\$250.00
Grants made	\$10,000.00		
Fees	\$1,700.00		
<b>Total</b>	<b>\$11,700.00</b>		

## 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

# Donor Advised Funds vs. Other Ways to Give

It used to be that your only choices were private foundations and trusts. Now DAFs have made the scene.

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 check-book 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. But there is a great range in between, a range into which the donor advised fund falls.

## PRIVATE FOUNDATIONS

Of all the philanthropic tools, private foundations are those most often compared to donor advised funds. They remain the traditional choice for donors making a significant financial commitment to charitable causes. An important similarity between DAFs and private foundations is that gifts are irrevocable. The donor does not receive any assets or income back from the charitable organization at any time—and neither do the donor's heirs or successors.

But for those who might have considered creating their own foundations, DAFs are gaining new-found attention because of their advantages, especially the increased tax benefits, the elimination of extensive paperwork, startup costs and maintenance fees, and greater flexibility in giving.

Tax issues are often paramount in the decision to choose a DAF. For starters, the tax deduction limit for cash donations is up to 50% of your adjusted gross income (AGI), whereas the limit is only 30% of AGI for gifts to foundations. For gifts of securities to a donor advised fund, the deduction is up to 30% of AGI, whereas for

private foundations it is only 20% of AGI. Additionally, unlike private foundations, DAFs are exempt from excise taxes on investment income.

## EASIER FROM THE START

The ease of setting up your donor advised fund, and the absence of startup costs, are other elements to bear in mind. The startup costs for establishing a private foundation can be quite extensive, somewhere in the area of \$30,000. Normally, the setup process takes as long as several months—due in part to the paperwork that's necessary.

## PS AND Qs

Privacy is also a factor to consider. On many levels, being a donor-adviser gives you a much greater degree of privacy. A private foundation must file public forms

## BAGGAGE TO CHECK

### PRIVATE FOUNDATIONS

- Tax deductions up to 30% of AGI
- Extensive paperwork and annual filing
- Setup costs and ongoing management fees
- Excise taxes paid on investment income
- All financial details must be on public record

about every aspect of itself, from assets, to completed grants, to staff. Not so with a donor advised fund—through which you can make gifts anonymously or in someone else's name.

## FLEXIBILITY IN GIVING

With a donor advised fund, you may also contribute closely held stock, if your parent charity is willing to accept it. And while there are restrictions on tax-deductible gifts that others can give to your foundation, no such limits exist on tax-deductible gifts to a DAF. Finally, foundations have an annual required payout of 5% of the year's income, whereas the great majority of DAFs have no such requirement.

## CONTROL ISSUES

Donor control is arguably one of the few areas in which 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.

## NO BAGGAGE

### DONOR ADVISED FUNDS

- Tax deductions up to 50% of AGI
- Minimal, streamlined paperwork
- No setup costs and minimal annual fees
- No excise taxes, and no required payouts
- Anonymous gifts an option

## OTHER GIVING CHOICES

Private foundations 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.

## RECAP: THE ADVANTAGES OF DAFs

When compared to other charitable giving tools, DAFs boast a number of important advantages.

- No startup costs
- Greater tax advantages
- Easier recordkeeping
  - No 5% distribution requirement in most cases
- Choice of anonymity or recognition
- Due diligence done by parent charity
- Guidance and support