DONOR ADVISED FUNDS

AND GIFTING

SURMANG FOUNDATION

Donor Advised Funds

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Agenda

- What Are Donor Advised Funds (DAFs)?
- Pros and Cons
- How do Non Profit Organizations (NPOs) take advantage of them?
- What controls need to be in place before use of DAFs?
- Discussion – Next Steps

What are Donor Advised Funds?

- A donor advised fund ("DAF"), as defined by the Internal Revenue Code, is an account over which a donor-advisor ("Donor") has advisory privileges to recommend grants to **IRS-qualified public charities in good standing**
  - *On the positive side: these types of funds largest recipient of charitable funds in 2015**
  - *In 2017, these were responsible for 25% of donations for 400 charities***
  - *On the negative side: can be a “waiting room” for charitable donations**

**–The Atlantic, Dec. 30 2017*

***ThinkAdvisor 12/29/2017*

How Do They Work?

1. A donor “deposits” money for future giving. The donor receives a tax deduction for deposits in fund, although they are not disbursed. The donor no longer has access to funds but can use the “donation” as a tax shelter when earning large income/liquidating large amount of funds.
2. Funds grow via reoccurring donation or interest earned
3. Donor “grants” funds, although assets are ultimately in control of administer of fund.
    a. *Donor can make separate grants to a number of organizations.*
    b. *Grantees for DAFs have special rules (e.g.,): http://content.schwab.com/web/charitable/Granting_Guidelines.pdf*
4. Because funds are disbursed via grants funds are not directly disbursed to charity via existence in DAF

Pros and Cons

Donor

- Pros
  - *Allows donor to receive tax deduction*
  - *If fund is a certain size (e.g., 250K for Charles Schwab), it can be managed for free for the investor/donor*
  - *Donor receives one letter re tax deductions vs. multiple*
- Cons
  - *Once money is in an account it cannot be returned to donor*
  - *Administer of DAFs have ultimate control of assets – i.e., upon death, funds may not go to intended charities*

Non profit

- Pros
  - *Can accept non-cash assets like real estate and privately-held stock*
  - *May lead to more reoccurring donations*
  - *May be useful in estate planning-type gifts, although DAFs are criticized for not forcing disbursement at the time of death – funds can return to the DAF and not go to the organization*
  - *Appears to be low overhead for charity*
- Cons
  - *For large DAF leaders (Fidelity, Charles Schwab, etc.) some of the donation is "leaks" via management fees*
  - *Funds may be in the "waiting room" for too long – large funds have been criticized for holding onto funds, and have increased disbursement in response to criticism*

Summary/Conclusion

- Can be a good vehicle for *current donors* or donors who already have a DAF and are looking for a place to grant
  - *Also good idea to maintain a good standing/score on sites like Charity Navigator and Guidestar increases likelihood "non-current" donor base contributes (DAFs use these as suggestions for donors of where to donate)*
    - Charity Navigator – currently not rated
    - Guidestar – currently included