Understanding Donor-Advised Funds

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A donor-advised fund (DAF) is an account established through a sponsoring charity, often an organization established for the purpose of providing this type of planned giving vehicle. The donor makes an irrevocable gift to an account owned by that sponsoring organization and can recommend charitable disbursements to charities of their choice thereafter.

How DAFs Work

Because the sponsoring organization of a DAF is, in and of itself, a charity, donors are eligible for an immediate upfront charitable deduction when they fund the account. Many DAF administrators do not require grants, so donors can grow these assets and make gifts to their favorite organizations over time. Assets also grow tax free.

To ensure that gifts to the DAF sponsoring organization are completed for the purposes of the charitable deduction, the DAF sponsoring organization is not required to honor grant requests but, in almost every case, will—provided it can verify the public charity status of the organization.

Establishing a DAF

There are hundreds of DAF sponsors in the U.S., so choosing one is the first step. In addition to account minimums, account fees, and technology capabilities, be sure to consider the following:

Endowed versus non-endowed. With an endowed DAF, the underlying principal (i.e., the amount donated) is restricted for a specific purpose, and the income generated from the investments in the DAF can be used only to make grants to other charities. For a non-endowed DAF, grants can be made using both the principal and income of the account.

Matching gifts. In some cases, account owners may be required to match each donation made to a charity with a donation to the sponsor.

Pooled versus separately managed. Investment options vary from sponsor to sponsor. Many sponsors will pool investments into model portfolios that donors can choose from based on risk tolerance and charitable goals. In other programs, investments can be managed using any allocation and investment products. These are known as separately managed accounts.

Private Foundations Versus DAFs

For many donors, the choice of charitable giving vehicles often comes down to a DAF or a private foundation. Both permit donors to have a pool of charitable dollars that donors and their families may control, both permit grants to existing charities, and both are eligible for the charitable contribution deduction. There are some key differences, however:

- DAFs are typically less expensive to administer.
- A DAF can be economical even with low balances; a private foundation may be overly costly if funded with less than $250,000.
- A DAF generally has higher adjusted gross income caps for the charitable deduction.
- A DAF offers anonymity, whereas a private foundation is required to file tax documents that are public record.
- A DAF may not grant to individuals, whereas some private foundations can with IRS approval.
- Depending on the sponsor, a DAF might not require any distributions in a given year, whereas a private foundation must distribute at least 5 percent of its assets annually.

Make Your Vision a Reality
If you think a DAF is right for you, you don't have to go it alone. I can help you connect with DAF administrators who can assist you with realizing your charitable vision.

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