

Donor Advised Fund (DAF)

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Definition:

A donor-advised fund (DAF) is a charitable-giving account that allows individuals or families to make a charitable contribution, receive an immediate tax deduction, and recommend grants to charities over time. This structure provides flexibility in managing charitable donations while maximizing tax benefits.

How Donor-Advised Funds Work

- 1. Establishment:** A donor establishes a DAF by making an irrevocable contribution to a sponsoring organization, such as a public charity or financial institution. This contribution can include cash, stocks, bonds, or other assets. *Click here for a donor letter expressing their experience in setting up and using a DAF as well as several web articles related to DAF's.*
- 2. Tax Benefits:** Upon contributing, donors can take an immediate tax deduction. For cash contributions, the deduction can be up to 60% of the donor's adjusted gross income (AGI), and for appreciated securities, it can be up to 30% of AGI. This allows donors to optimize their tax situation significantly.
- 3. Investment Growth:** The funds in a DAF can be invested for tax-free growth. This means that while the donor decides (after due deliberation or deliberation & prayer) which charities to support, their contributions can potentially increase in value.
- 4. Grant Recommendations:** Donors have the ability to recommend grants to eligible charities at any time. There is no requirement to distribute funds immediately; donors can choose to distribute them over several years.
- 5. Control and Flexibility:** Although the sponsoring organization maintains legal control over the funds, donors retain advisory privileges regarding grant distributions. This allows for strategic philanthropic planning without the administrative burdens associated with private foundations.

Advantages of Donor-Advised Funds

1. **Immediate Tax Deductions:** Donors benefit from immediate tax deductions upon contributing to the DAF.
2. **Investment Opportunities:** Funds can grow tax-free while waiting to be allocated to charities.
3. **Flexibility in Giving:** Donors can decide when and how much to give over time.
4. **Diverse Contribution Options:** DAFs accept various forms of assets, including non-cash assets like stocks and real estate.
5. **Legacy Planning:** Donors can create succession plans for their DAFs, allowing heirs or designated individuals to continue philanthropic efforts after the donor's passing.

Considerations

While DAFs offer numerous benefits, some critics argue they may serve as "placeholder" accounts for wealthier individuals seeking tax advantages without immediately directing funds to charitable causes. Additionally, once contributions are made, they cannot be withdrawn by the donor.

In summary, donor-advised funds represent a powerful tool for charitable giving that combines immediate tax benefits with long-term philanthropic strategy and flexibility.

In summary, donor-advised funds offer tax advantages and flexibility in charitable giving. Donors should carefully weigh these factors against their philanthropic goals before establishing a DAF.