



ASSOCIATION OF
PROFESSIONAL RESEARCHERS
FOR ADVANCEMENT

Demystifying Donor-Advised Funds

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MEETING OF THE 5 FAMILIES







FIDELITY CharitableSM

T.RowePriceSM 
PROGRAM FOR *Charitable Giving*SM



Vanguard
Charitable



SCHWAB
CHARITABLE

COMMUNITY
FOUNDATIONS

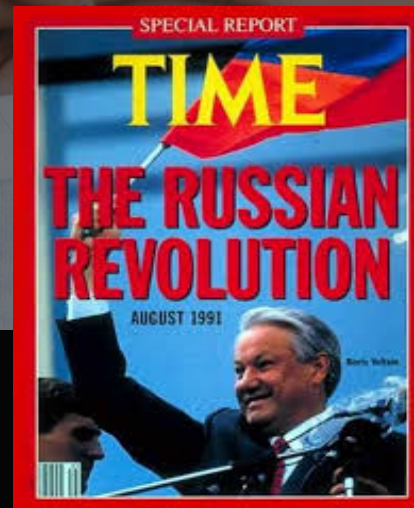


501(c)(3)

Public Charity



FIDELITY CharitableSM



What is a Donor-Advised Fund?

- ◆ DAF is a charitable bank account held by sponsoring organization
- ◆ Donor reserves money for charity by depositing into account
- ◆ Donor recommends charitable distributions to sponsoring organization

What is a Foundation?

- ◆ Foundation is a nonprofit corporation or non-exempt charitable trust
- ◆ Donor creates investment portfolio / endowment
- ◆ Foundation distributes earnings to charity by donor decision

DAF Qualifiers

- ◆ Donor neither owns nor controls DAF assets
- ◆ DAF is owned/controlled by sponsoring org
- ◆ Donor is advisor, not decision-maker
- ◆ Limited flexibility
(narrowly defined charitable giving options / limited discretion)

Foundation Qualifiers

- ◆ Foundation is a “person” with its own assets
- ◆ Donor does not own assets, but controls them
- ◆ Donor is decision-maker, not advisor
- ◆ Very flexible
(broad charitable giving options / broad discretion)

Advantages of DAF over Direct Giving

- ◆ Immediate tax deduction on money placed into DAF
- ◆ Loads more tax deductions into high-income years
- ◆ Money can be distributed gradually; more time to explore and vet charities

Set-Up



- ◆ Simple and virtually immediate
- ◆ Like opening a bank account



- ◆ May take weeks or months
- ◆ Must file with state and IRS
- ◆ “Streamlined setup” in as little as 3 days

Startup Cost

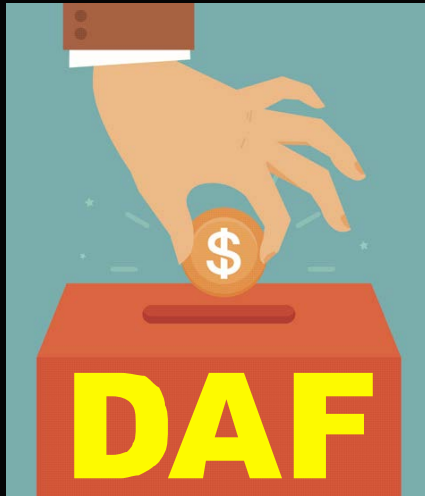


- ◆ Possible legal fee to review contract
- ◆ Cost basis as little as \$5,000



- ◆ Legal + accounting + investment fees
- ◆ Cost basis = \$250,000 to \$2 million / \$3 million

Operating Cost



- ◆ Sponsoring organization charges administrative & investment fees
- ◆ $\approx 1\%$ of asset base/yr
- ◆ May not use DAF assets to cover operating costs



- ◆ Hired staff or fee-based financial institution
- ◆ $\approx 2.5-4\%$ of asset base/yr
- ◆ Foundation may charge operating costs to its own asset base

Capitalization



- ◆ Primarily cash or negotiable securities
- ◆ Other assets are problematic



- ◆ Cash and negotiable securities
- ◆ Tangible & intangible property
- ◆ Real estate
- ◆ Life insurance & annuities
- ◆ Retirement assets
- ◆ Estate gifts
- ◆ Alternative investments

Maximum Tax Deductibility



- ◆ 60% of AGI for cash
- ◆ 30% of AGI for all other assets
- ◆ Appreciated assets are deductible at current market value



- ◆ 30% of AGI for cash
- ◆ 20% of AGI for all other assets
- ◆ Appreciated assets are deductible at cost basis only

Tax Liability



None



1-2% annual excise on net
investment return

Charity Distribution Requirements

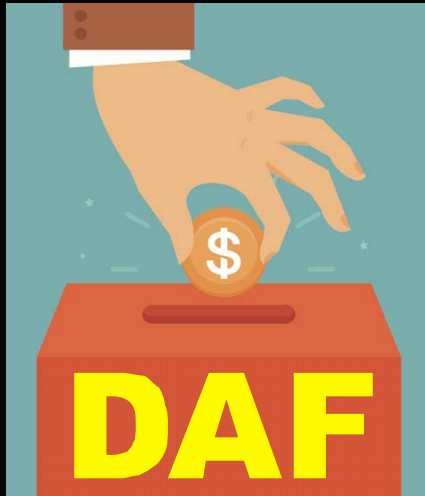


- ◆ No legal requirement
- ◆ Some sponsoring organizations self-impose minimum distributions



By law, minimum 5% of asset market value per year

Governance / Control



- ◆ Donor releases all ownership & control
- ◆ Advises but does not decide on distributions
- ◆ Donor has little or no role in investment decisions



- ◆ Donor releases ownership, but not control
- ◆ Donor has complete fiduciary discretion
- ◆ Applies to both gift & investment decisions

Family Legacy



- ◆ Limited or non-existent
- ◆ Most sponsoring organizations enforce sunset rules
- ◆ DAF remaining assets become sponsoring org's discretionary assets



- ◆ Unlimited
- ◆ No sunset requirement; may exist in perpetuity
- ◆ Foundation may employ family on staff or appoint to Board

Privacy



Complete privacy



Only limited privacy possible

Flexibility



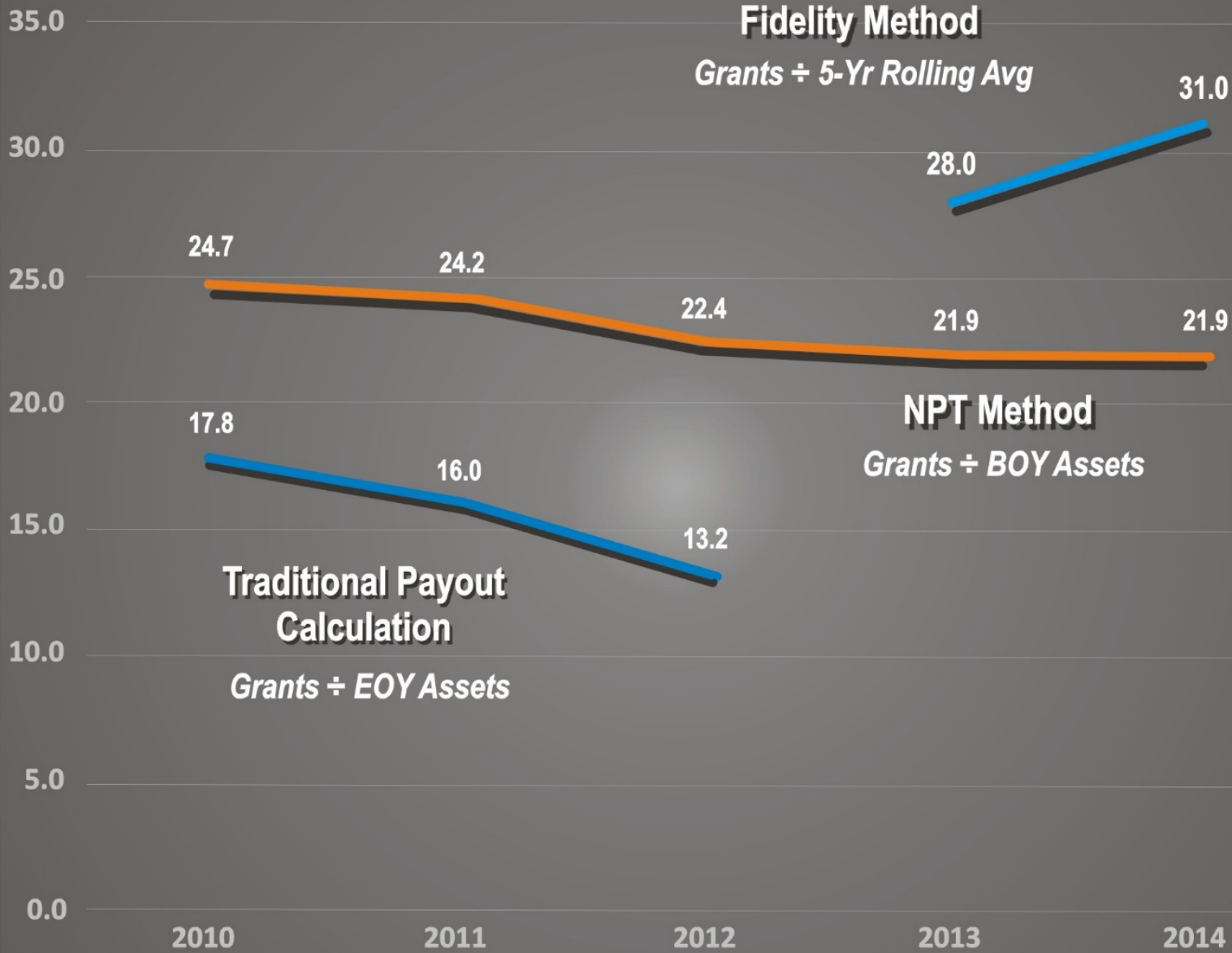
- ◆ Cannot make a binding pledge with a DAF
- ◆ DAF may give to qualified 509(a) charities only
- ◆ DAF may not make international grants



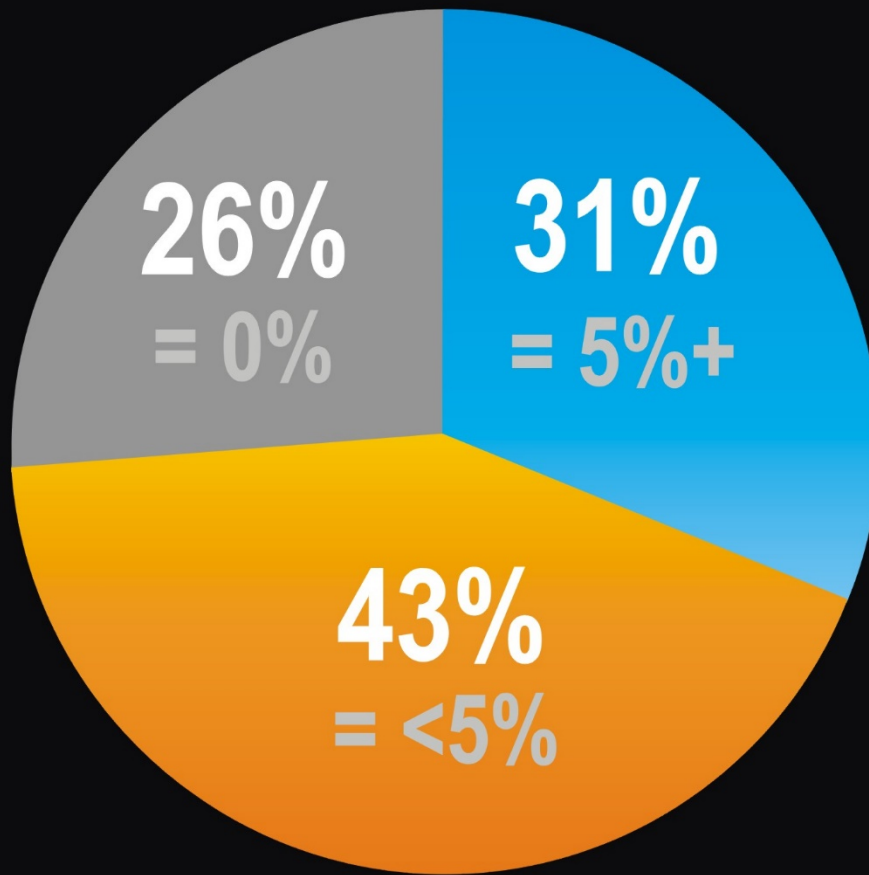
- ◆ May commit foundation to a binding pledge
- ◆ Grants to virtually anyone for charitable purposes
- ◆ Foundations may give worldwide

Criticisms of DAFs

- ◆ **Inhibits fundraising; donors inaccessible**
- ◆ **Minimal transparency / disclosure**
(Allows “creative bookkeeping”)



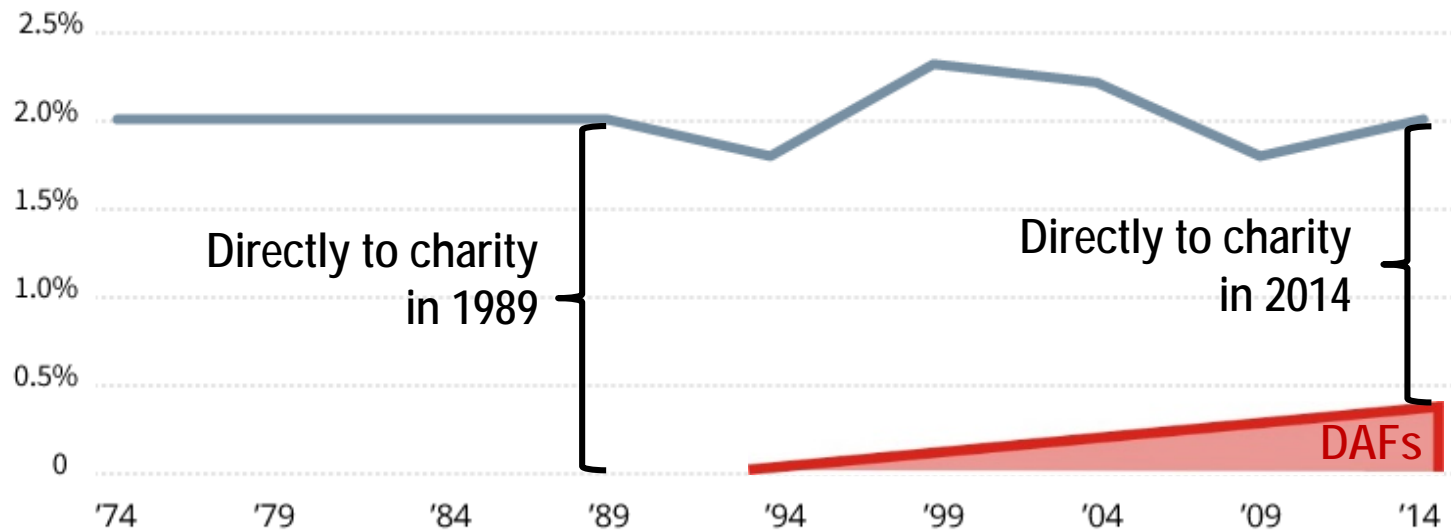
DAFs 2008



FDNs 2008-2011: 11.6% avg.

Criticisms of DAFs

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- ◆ **Donor recommendations are non-binding**
(Donor has influence, but not control)
- ◆ **No distribution requirement**
(Diverts money from immediate charitable needs)



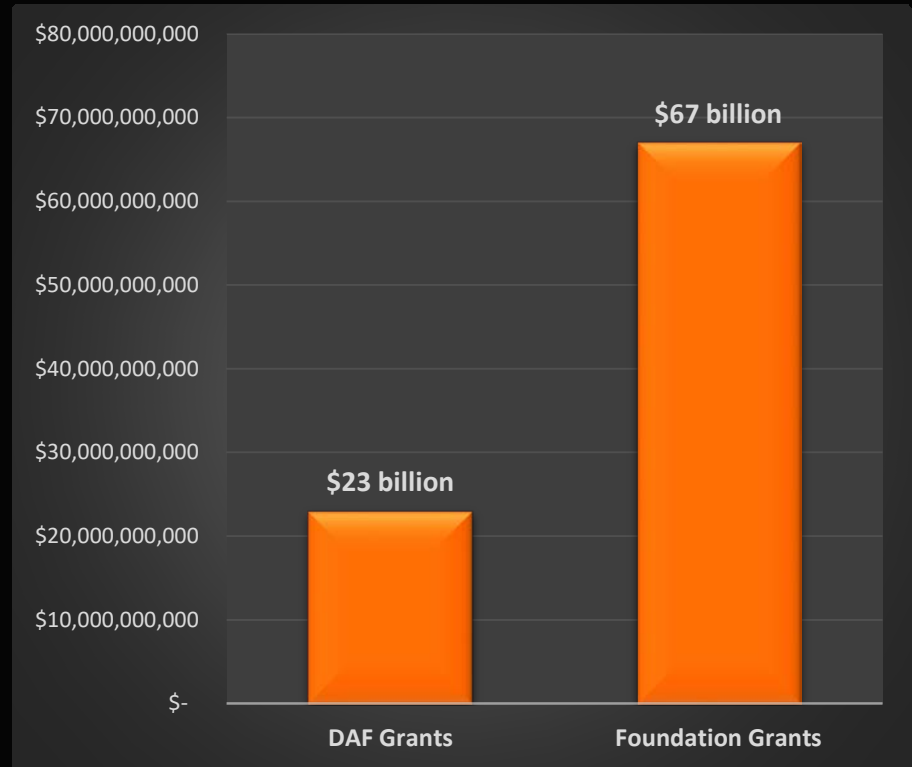
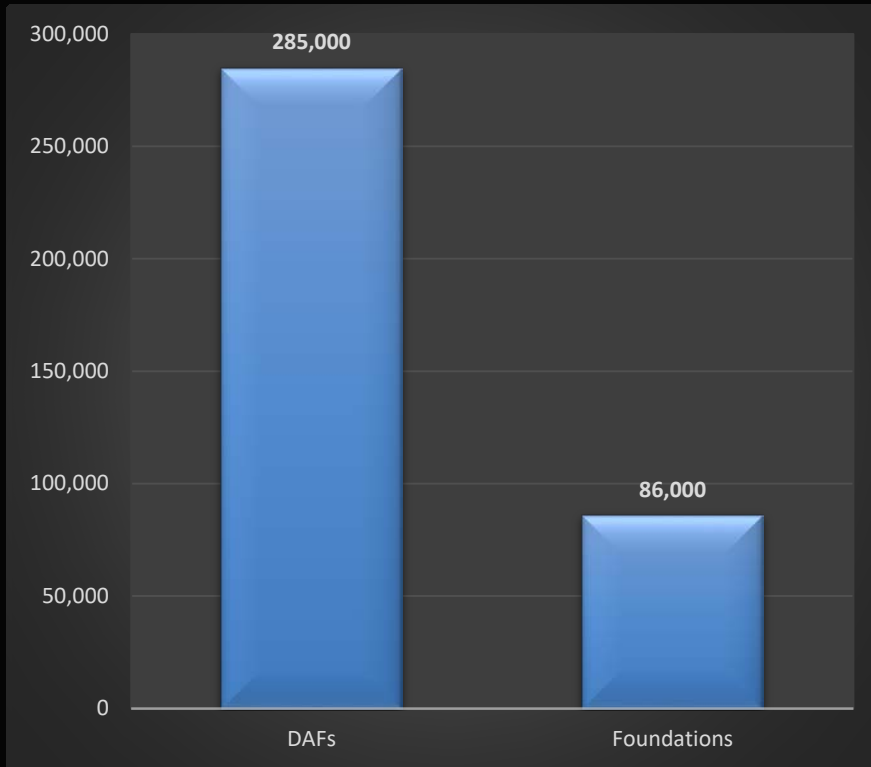
Source: Giving USA 2015 and the Indiana U. Lilly Family School of Philanthropy

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- ◆ **No incentive to encourage distributions**
(Accumulated cash = tax-free growth)

Are DAFs Taking Over the Charity World?

No.



Which is Best – DAF or Foundation?

It depends...

- ◆ **How much money does the donor want to invest?**
- ◆ **How involved does the donor want to be?**
- ◆ **How important are flexibility and control?**
- ◆ **How important is anonymity or recognition?**

DAF	FDN
Limited assets	Extensive assets
Minimal involvement	Major involvement
No management	Complete control
Anonymity	Recognition

The Best of Both Worlds: Using Private Foundations and Donor Advised Funds

This guide is for professional advisors whose clients want to formalize their charitable giving through a giving vehicle such as a Donor Advised Fund (DAF) or a private foundation. Many types of giving vehicles are available to donors; DAFs and private foundations are two of the most popular. Other giving vehicles include various kinds of charitable trusts; types of fund accounts other than DAFs (such as designated funds and unrestricted funds); and other 501(c)(3) entities.

Experienced professional advisors know that helping clients find the best giving vehicle available for them creates a win-win situation. The clients will be happier with a vehicle that is a good fit, will gift more assets, and will recommend that advisor to friends. In short, clients will be more fulfilled, more generous, more effective, and more influential on the causes they care about. In turn, the professional advisor builds a stronger reputation as a trusted ally.

In some situations, a private foundation is the best vehicle to accomplish a client's goals; other cases call for use of a DAF, other type of fund, or another giving vehicle altogether. In many situations, however, clients use both private foundations and DAFs to accomplish their goals effectively.



“Helping clients find the best giving vehicle available for them creates a win-win situation. In many situations, clients use a combination of both private foundations and DAFs to accomplish their goals effectively.”

Donor-Advised Funds...

MAJOR GIFTS

or

CFR ???

Solicitation

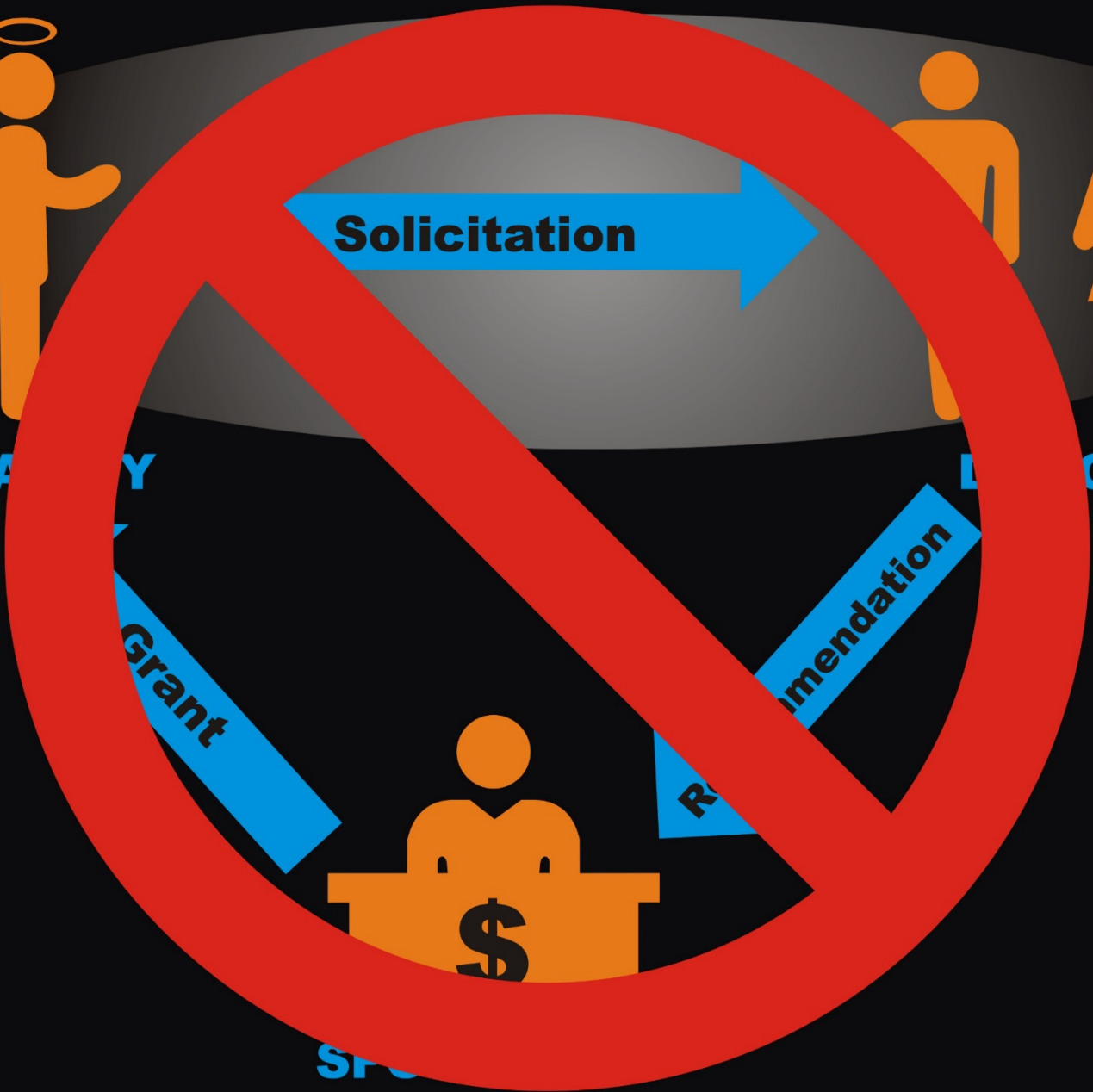
Grant

Recommendation

SPC ORGANIZATION

CHARITY

DONOR

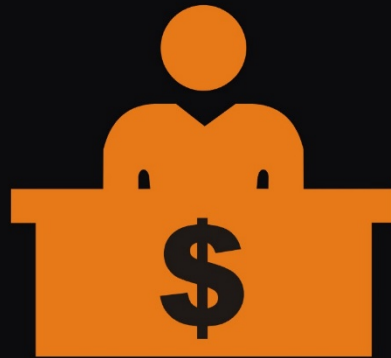




CHARITY



DONOR



**SPONSORING
ORGANIZATION**



CHARITY



DONOR



SPONSORING ORGANIZATION

Solicitation

Grant

Communication

Recommendation

Why DAFs Fit Better with CFR than Major Gifts

- ◆ **In most cases, primary relationship is organizational, not personal**
- ◆ **Many sponsoring orgs require follow-up report on DAF grants, just like foundations (Major Gift officers unused to this type stewardship)**
- ◆ **Congress/Treasury moving toward regulating DAFs more like foundations**

ANY
QUESTIONS
?