

Donor Advised Fund Background and Definition

Donor Advised Fund Fast Facts

- The donor receives an immediate tax deduction for gift through sponsoring organization (a sponsoring organization may be a foundation or commercial investment firm)
- The donor can name the fund – ex. The Jones Family Fund
- The donor gives up legal ownership of contributed assets to the sponsoring organization – the fund is owned and controlled by the sponsoring organization
- While the donor has no legal control of fund, they may reasonably expect to have advisory privileges with respect to the distribution or investment of amounts held in their fund

Benefits of Donor Advised Funds for Donors:

- Receive immediate tax deduction for gift
- Can advise how funds are distributed and invested
- Increases the impact and long-term charitable engagement of donor giving as fund grows
- DAFs are accessible to people of all levels of wealth as opposed to creating a family foundation or endowment, which offer different benefits, but generally requires larger assets¹
- Donors receive assistance from the sponsoring agency to quickly and easily donate hard-to-value assets such as real estate, life insurance, tangible assets, etc.⁴
- Donors may avoid paying capital gains taxes on investment income

Benefits of Donor Advised Funds for Charities and Communities:

- Funds held by community foundations are distributed locally, by people who are experts in the community's needs (with input from donor)
- DAFs appeal to donors from diverse ages and income levels, often serving as a point of entry for charitable giving and long-term community involvement. The average age of DAF donors is between 46- and 64-years-old.¹
- Funds are available to quickly address local needs such as emergency response efforts. Foundations whose funds may be promised during a grant cycle do not have as much flexibility.¹
- DAFs increase the impact of local charitable giving and serve as a “community savings account,” building access to long-term philanthropic resources in our communities.¹

Do's and Don'ts for processing Donor Advised Fund Gifts

Do use a DAF-specific letter

The donor thank you letter should clearly state the gift was a grant from a donor advised fund. The donor does not receive a tax deduction when a grant is made from their fund², so the letter must not use standard tax receipt language. The donor receives a tax receipt directly from the sponsoring agency. (see sample letter at the end of this document)

Sample thank you letter wording:

Thank you for recommending a grant from <Fund Name> of <Sponsoring Organization>
Ex. Thank you for recommending a grant from The Jones Family Fund of Schwab Charitable.

Sample donor honor roll / gratitude report wording:

The <Fund Name> of <Sponsoring Organization> ex. The Jones Family Fund of Schwab Charitable

DO publicly recognize the donor's gift

Public recognition of the gift is not considered an IRS prohibited benefit to the donor. Both the sponsoring agency and donor should be listed in all publications.
Ex. The Jones Family Fund of Schwab Charitable

DO not provide donor, advisor or any related party a benefit related to grant

The IRS strictly prohibits donors from receiving any benefits from a DAF gift. They are allowed "incidental benefits" of token items like a keychain, mug or t-shirt, but cannot receive goods or services greater than "de minimis value." The IRS is vague of what constitutes an "incidental benefit," but be sure to exercise extreme caution and consult a tax professional or attorney if you are unsure how to proceed. The donor will be subject to a 125% excise tax if more than incidental benefit is provided related to a DAF gift.

Do NOT provide benefits to donor for special events, raffle tickets, etc.

The IRS ruled that costs associated with fundraising events cannot be separated, a practice known as "bifurcation." Donors cannot "buy" event tickets or sponsorships through a DAF grant or even receive preferred seating or parking for seats purchased separately if preferential treatment is related to the gift.² Even if that benefit is given to all donors at the level of the DAF gift, the DAF funds may not be used in consideration of which level of benefits to give the donor.

Ex. All donors who give more than \$1,000 annually get a free NH gala tickets. In 2018, the Jones Family donated \$800 through a DAF and \$200 in a non-DAF gift. They do not qualify for free gala tickets because the \$800 DAF gift was technically given by the sponsoring agency, not the donor and their \$200 in annual gifts is below the \$1,000 threshold for the benefit.

Do NOT use a DAF grant to pay for memberships (in most cases)

If more than incidental benefits are provided with a membership (i.e. discounted event attendance, free or discount merchandise beyond token items), then a DAF may not be used to pay for the cost of a membership. If the membership fee is 100% tax deductible, then a DAF grant may be used to cover fees.²

Do NOT used for the benefit of a certain individual

Grants cannot be made directly to individuals or in cases like tuition payment or scholarships where the donor has discretion as to which specific student receives the scholarship.²

Do NOT use a DAF grant to fulfill a pledge obligation

There are very specific circumstances where DAF funds may be applied toward a pledge, but the potential for creating tax issues for the donor is high, it's best to avoid this practice.⁴

Future DAF Issues to Monitor

The IRS is considering treating a DAF distribution as an indirect contribution from the donor that funding the DAF, rather than the sponsoring organization supporting the charity. This would mean that donors could no longer use DAFs to give to charities anonymously. This would be a donor could not have the sponsoring organization withhold their name from the charity (although they could still request their donation be publicly anonymous in the charities donor honor roll).

Critics of DAFs have called them “wealth warehouses,” “waiting rooms for charitable donations, and “charity checking accounts,” claiming that the funds could be fully distributed to charities rather than gaining interest (and profits) for agencies like Fidelity Charitable Gift Fund, the largest donor-advised fund in the US. Schwab Charitable reported that their donor-advised fund earns them far more in fees than their investment management accounts. Proposed changes would cap management fees taken by sponsoring agencies, so fees don't increase as assets build.⁵

DAFs do not have minimum distribution requirement like charitable foundations do, so donors do not have to recommend that money be distributed. They could make a large tax-deductible gift to a DAF and not distribute any funds to charity until 10 years or 100 years later. Proposed changes to DAF regulations would provide a tax deduction to donors only after funds are distributed and require funds be distributed within a certain amount of years.⁵

References

¹ Council on Foundations (<https://www.cof.org>)

² PG Calc (<https://www.pgcalc.com>)

³ Association of Advancement Service Professionals (<https://www.advserv.org>)

⁴ Moss Adams (<https://www.mossadams.com/home>)

⁵ Forbes Magazine (www.forbes.com) Article, “There's A Target On Charity's Booming Donor-Advised Funds”

Donor-Advised Fund Acknowledgement Example:

Poor Handmaids of Jesus Christ



Partners in the work of the Spirit

<Date>

<Donor Name>

<Address Lines>

<City, State, Zip>

Dear <Donor Name>,

“Thank you for recommending that <sponsoring agency> make a distribution of <donation amount> from your donor-advised fund to <ministry name>. We have received the gift, and the funds will make a profound difference in the lives of <clients you serve> in our community.

Your generosity changes lives touched through PHJC ministries. Thank you for enriching their lives...they are blessed to have your support.

Sincerely,

<letter signer>