

DONOR ADVISED FUNDS: A PRIMER



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— WEALTH —

How to Establish and Manage a Donor Advised Fund

Donor advised funds (DAFs) have emerged as one of the fastest-growing charitable giving vehicles in the United States, offering donors a simple, flexible, and tax-efficient way to support their philanthropic goals. A DAF provides many of the benefits of a private foundation while requiring significantly less administrative burden and lower minimum contributions.

Understanding Donor Advised Funds

A donor advised fund is a charitable giving account established at a public charity, called a sponsoring organization. When you contribute to a DAF, you receive an immediate tax deduction and then recommend grants from the fund over time to qualified nonprofit organizations.

Key characteristics:

- Immediate tax deduction upon contribution
- Investment growth potential for contributed assets
- No required minimum distributions
- Simplified administrative requirements
- Advisory privileges (not legal control) over grant recommendations

Unlike private foundations, DAFs don't require separate legal entities, board governance, or extensive compliance obligations. Unlike direct charitable giving, DAFs allow you to separate the timing of your tax deduction from your grant-making decisions.



Funding Your Donor Advised Fund

Contribution types:

- Cash contributions (most common and straightforward)
- Appreciated securities (stocks, bonds, mutual funds)
- Private business interests
- Real estate
- Complex assets (artwork, collectibles, cryptocurrency)

Tax benefits:

- Cash contributions: Deduct up to 60% of adjusted gross income (AGI)
- Appreciated capital assets: Deduct up to 30% of AGI
- Carry forward unused deductions for up to five years
- Avoid capital gains taxes on appreciated assets contributed

Timing strategies: Consider "bunching" contributions in high-income years to maximize tax benefits, then distribute grants over multiple years.

Investment Management

Investment options:

- Pre-designed portfolios based on risk tolerance and time horizon
- ESG (Environmental, Social, Governance) investment options
- Target-date funds
- Individual mutual funds or ETFs
- Some sponsors offer access to alternative investments

Growth potential: Funds can grow tax-free while you decide on grant recipients, potentially increasing your charitable impact over time.

Risk considerations: Balance growth objectives with the timeline for your intended charitable distributions.



Grant-Making Process

Eligible recipients: Grants must go to IRS-qualified 501(c)(3) public charities or equivalent international organizations.

Grant recommendations:

- Most sponsors have online platforms for submitting grant recommendations
- Minimum grant amounts (typically \$50 to \$500)
- Due diligence on recipient organizations
- Grant approval timeline (usually 1-2 weeks)

Grant types:

- One-time grants
- Recurring grants
- Multi-year pledges (where supported)
- Anonymous grants (donor privacy maintained)

Restrictions: Cannot fulfill personal pledges, provide more than incidental personal benefit, or support political campaigns.

Ongoing Management and Strategy

Develop a giving strategy:

- Establish philanthropic goals and focus areas
- Create a timeline for grant distributions
- Consider involving family members in grant-making decisions
- Review and adjust strategy based on impact assessment

Succession planning:

- Name successor advisors for the account
- Consider establishing multiple DAFs for different family members
- Plan for eventual distribution of remaining funds

Impact measurement: Work with recipient organizations to understand and evaluate the effectiveness of your grants.

Important Considerations



Advisory nature: While sponsors typically honor donor recommendations, they maintain legal control and discretion over all distributions. Recommendations can be declined if they don't meet the sponsor's guidelines.



Perpetual nature: DAFs can exist indefinitely, unlike private foundations which may have sunset provisions. Plan for long-term management and succession.



Public charity status: Contributions to DAFs qualify for public charity deduction limits, which are more generous than private foundation limits.



Anonymity options: Many sponsors allow anonymous grant-making, protecting donor privacy while still enabling charitable impact.

Legal and Regulatory Framework

IRC Section 4966 Requirements

The Pension Protection Act of 2006 established specific rules governing donor advised funds:

Sponsoring organization requirements:

- Must be a Section 501(c)(3) public charity
- Must maintain legal control and discretion over contributed funds
- Must establish written procedures for evaluating grant recommendations
- Cannot provide more than incidental benefit to donors

Prohibited transactions:

- Grants that provide more than incidental benefit to donors or related parties
- Grants to non-functioning private foundations
- Grants to satisfy existing legal obligations or pledges

Best Practices for DAF Management



Strategic Giving Approach:

Develop a philanthropic mission statement: Clearly articulate your charitable goals and values to guide grant-making decisions.

Establish giving categories: Allocate your DAF across different cause areas or geographic regions to diversify impact.

Create a grant-making calendar: Plan distributions throughout the year to maintain regular engagement with charitable causes.

Best Practices for DAF Management



Family Involvement:

Education and engagement: Include family members in learning about charitable causes and evaluating potential grant recipients.

Succession planning: Establish clear guidelines for how the DAF will be managed across generations.

Multiple account strategy: Consider establishing separate DAFs for different family members to accommodate varying interests and timelines.

How PUREfi Wealth Can Help



Strategic planning: Collaborate with clients to develop comprehensive philanthropic strategies aligned with financial and tax planning goals.

Sponsor selection: Evaluate and recommend appropriate DAF sponsors based on client needs, preferences, and objectives.

Asset contribution strategies: Optimize the timing and structure of contributions to maximize tax benefits and charitable impact.

Investment oversight: Monitor and manage DAF investment performance within the context of overall wealth management strategies.

Coordination with tax and estate planning: Integrate DAF strategies with broader financial planning objectives and family wealth transfer goals.

Ongoing advisory support: Provide regular reviews of DAF performance, grant-making effectiveness, and strategic adjustments.

Family governance: Assist with developing family philanthropy governance structures and next-generation engagement strategies.

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