



DONOR ADVISED FUNDS

A Unique Tool to Help You Achieve Your Charitable Goals While Being Strategic About Taxes

WHAT IS A DONOR ADVISED FUND?

Since inception in 1931 and formalization in 1985, a Donor Advised Fund, or DAF, is a fund created by families and individuals and held by a public charity for charitable purposes. A Donor Advised Fund is a financial account created as a result of a gift made to a charitable organization. The organization then holds, manages, and ultimately distributes the assets according to advice it receives from the donor. Technically speaking, the assets in the DAF are owned solely by the charity and the charity can make distributions however it deems fit; however, charities choose instead to distribute the assets according to advice it receives from the donor regarding when to make a gift, the amount, and to which charity. Thus, although the assets are no longer under the strict control of the donor, a donor still exerts influence over the use of the funds.

HOW DOES IT WORK?

Think of a DAF like a charitable holding account. A donor can contribute to the DAF whenever he or she wants and will receive a charitable deduction for the amount of each gift made to the fund. Once dollars are in the DAF, a donor can offer advice to the charity about distributions. Although fund rules differ, there is generally no limit on what charity a donor intends to benefit nor is there a requirement that distributions be made annually. Therefore, a donor can build a charitable holding account over a number of years in order to make a more impactful gift to a beloved charity of their choice.

WHY USE THIS TOOL?

A DAF is an ideal tool for tax planning. Individuals facing substantial tax liability due to the sale of a business, or other capital gain property, may be advised by their accountant or attorney to make a charitable gift to offset taxes; however, they may not know what charitable cause they want to benefit or they may want more time to think about their charitable goals than is available before the end of the tax year. Instead, they can simply contribute to their DAF, claim a deduction for the amount transferred, and decide later how they want the gifts to be used.

For example, Jane, a charitably minded individual, sold an apartment building and stands to realize \$50,000 in capital gain income that she does not need for her retirement. Instead of feeling rushed to make a gift to her favorite charities in 2017, she can instead transfer the \$50,000 into a DAF, claim a deduction for the entire amount donated, and then advise the DAF custodian to make gifts to her favorite charities over time. Jane can also choose to turn advisory control over to her children upon her death in order to pass along her passion for philanthropy.

IT SOUNDS LIKE A PRIVATE FOUNDATION, WHAT IS THE DIFFERENCE?

There are a few key differences between a private foundation and a DAF:

- A DAF is not required to make any annual distribution where a private foundation must distribute 5% of its total value annually.
- A DAF is not required to have a governing board or make any kind of report to the IRS like a private foundation is.
- The value and distributions of a DAF never have to be disclosed publically whereas a private foundation is required to file a publically available annual report of its activities.
- Advisory control of a DAF can be easily transferred from one person to the next whereas a private foundation has a board of directors that is not as easily changed.

WHAT CHARITIES HOLD DONOR ADVISED FUNDS?

A variety of private and community foundations have DAF programs and each has their own specific rules for distributions and fees. Some banks also have a close association with a 501(c)(3) non-profit organization such as the Fidelity Investments Charitable Gift Fund¹. Contact the UW Foundation Planned Giving Program for a list of DAF options in your area.

Please note that the information in this flyer is not intended as investment, tax, or legal advice. Please contact your trusted tax, financial, or legal advisor for such advice before making a gift.



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¹Not an endorsement of the Fidelity Commercial Bank or the Fidelity Investments Charitable Gift Fund, merely used as an example.