

BENEFITS & LIMITATIONS OF DONOR ADVISED FUNDS

The benefits and limitations of donor advised funds (DAF) vary depending on who manages the account. DAF management services are most commonly offered by community foundations. However, increasingly financial institutions, universities, nonprofits, and web-based institutions are providing these administration services. The following are some common themes:

BENEFITS OF A DONOR-ADVISED FUND

1. Immediate tax deductions:

Donations to the fund are fully deductible in the tax year they are made.

2. Avoidance of capital gains tax:

Individuals can donate appreciated securities directly to the fund and realize their full value as a deduction, without incurring any capital gains tax.

3. Simple alternative to private foundation:

Eliminates the complexities, costs, and administrative burden of a private foundation (see reverse).

4. Separation of tax planning and charitable decision:

Immediate tax advantages can be achieved now and grants can be made to charities later.

5. Flexibility in recommending grants:

Donors can recommend grants to charitable organizations of their choice for the life of the account. Some DAF administrators have regional or mission related limits on which charities you can choose.

6. Anonymity if desired:

Grants can be distributed with recognition of the donor or anonymously.

LIMITATIONS OF DONOR-ADVISED FUNDS

1. Limited impact of Individual philanthropy versus collective philanthropy

- a. Contributions to foundations that grant collectively are leveraged by other contribution so that grants can be made at a level higher than most individuals could fund alone.
- b. Large institutions have greater ability to convene and work in collaboration with other foundations and donors.
- c. Foundations are often more informed about the needs of the community and the most effective organizations addressing those needs.

2. Limited due diligence without an application process.

The donor can obtain substantial information about the viability of the grantee through an application process to a private foundation.

3. Plethora of Donor-Advised Fund service providers. How do you choose the right one?

Donor advised funds are now administered by a growing number of web-based institutions, and are also offered by financial institutions, universities, nonprofits, and, most widely, community foundations. Each can have additional benefits and limitations. Factors to consider in selecting a DAF administrator include: administration fees, timelines for dispersing grant, grant minimums and any regional or issue limitations as determined by an organizations mission.

4. Potential for abuses

The Internal Revenue Service is concerned that some host organizations accept donor advisor recommendations without question. Because the law precludes receiving the tax advantages of an advised fund while maintaining the control over grants similar to that of a private foundation, IRS monitoring of this situation continues.