

WHAT'S HOT? DONOR ADVISED FUNDS (AKA DAFs)

Even though they have been in existence since 1931, donor advised funds (DAFs) are a widely popular means of giving today and grow in popularity every year.

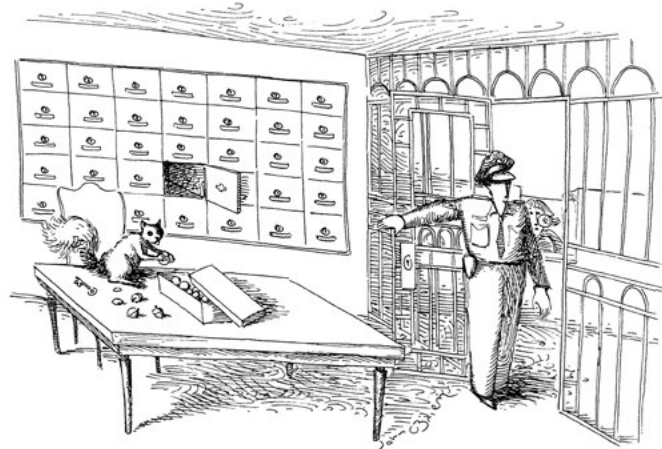
What are DAFs?

DAFs are accounts hosted by a 501(c)(3) charity, opened by an individual with donated assets above a minimum amount set by the 501(c)(3) host. The donor subsequently recommends (i.e. "advises") that grants be made out of the DAF to other 501(c)(3) charities named by the donor.

The donor receives full tax credit for the gift to the DAF, just like a completed gift to any other 501(c)(3), but later can recommend grants out of the DAF to one or multiple charities. Unlike private foundations, no rules currently exist requiring minimum charitable distribution of DAF funds.

What is the purpose of a DAF?

In the pre-DAF era, philanthropists created private foundations (aka family foundations) to attain privacy, control, tax efficiency; consolidate giving; and involve multiple family members or generations in the giving decisions about family wealth. All those desirable outcomes still exist in the present giving environment, but now donors can secure the same benefits via a DAF at much lower cost and complexity.



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Features common to most DAFs:

- Most DAF minimums are \$5,000 or \$10,000 to open.
 - DAFs accept cash, stock, and non-cash assets; manage investments; distribute funds and file tax forms.
 - Donor-advisors have online access to make grant requests and research charities.
 - Donor-advisors can name additional and successor advisors.
 - Donor-advisors can remain anonymous to the charities if desired.
- DAF donors are strategic: 61 percent report being somewhat or very strategic with their philanthropy, with 18 percent reporting becoming more strategic after opening a DAF.

Where can one open a DAF?

Like a majority of 501(c)(3) charities, the **University of Maryland Baltimore Foundation** does not have its own DAF, but gifts from DAFs are essential to our annual support and we welcome DAF gifts with open arms.

At last count, there were 979 DAF sponsoring organizations holding 285,000 accounts worth \$90 billion. The three most common places to find a DAF program are:

- 1 || Community foundations**, such as the Baltimore Community Foundation and The Associated: Jewish Federation of Baltimore
- 2 || National charities**, such as National Philanthropic Trust and the Fidelity Fund for Charitable Giving
- 3 || Single-issue charities**, such as Feeding America and The Nature Conservancy

Who gives through DAFs?

Multiple studies in recent years provide insight about existing DAF donors:

- The overwhelming majority (94 percent) of 15,300 surveyed DAF donors are repeat donors who grant to the same charities more than once, and among that group 47 percent grant the same amount every year.
- DAF donors are involved: 73 percent report being somewhat or very involved in the charities they support, with 6 percent reporting they became more involved after opening a DAF.

USER REVIEW:

The Sewalls on Why a DAF Works for Them

Richard Sewall, DDS '76, and his wife, Gwyn, give annually to the School of Dentistry and multiple other charities. About six years ago they learned about DAFs from their financial advisor, who helped them establish a new DAF with appreciated stock.

“In a year when I converted an IRA to a Roth IRA, the donor advised fund was a good way to get a much-needed tax deduction, and this ensures a pool of money for our charitable gifts regardless of the vagaries of annual retirement income,” says Gwyn. “Through the website it’s easy to make our annual gifts and we can see our giving history any time. We are in aggressive growth and growth funds and can choose either one or a combination for the grants they make. The growth has allowed us to give and maintain the principal for future gifts.”

The Sewalls direct annual gifts to an endowed scholarship they previously established through a gift of stock in honor of former faculty member James R. Swancar, DDS. “Sometimes there is a need, such as to secure a challenge grant, to give outside our DAF, but in most cases we expect to give our major and annual gifts through our family fund,” says Gwyn.

She makes a final point about how a DAF works for them: “We titled our fund as a family fund and have our children as the future grant advisors, thus creating a fund that spans generations.”

EVERYONE ASKS: CAN DAFS BE USED TO PAY A PLEDGE?

Yes, if three conditions are met.

Ever since the IRS first wrote comprehensive rules governing DAFs in 2006, confusion (and a lot of unpleasant surprises) has prevailed over the question of DAFs making payments on a pledge recorded in the donor’s name. The root of the problem is the severe IRS penalty imposed on donor-advisors and DAFs if a grant is made that results in “more than an incidental benefit” to the donor-advisor. The IRS might consider a DAF payment on a pledge obligated by another party (the donor-advisor) a personal benefit.

Fortunately, in December 2017 the IRS proposed clarifying rules over DAFs and pledge payments. Although not yet law, the notice (2017-73) provides that donor-advisors and DAF sponsors may immediately rely on it for guidance relating to DAF pledges. The IRS will not impose penalties for fulfilling a personal pledge with a DAF if:

- 1 || When making the grant, the DAF makes no reference to the existence of the pledge.
- 2 || The donor-advisor nor anyone else receives directly or indirectly any other benefit besides the pledge payment.
- 3 || The donor-advisor does not claim a charitable deduction for the grant, even if the charity mistakenly provides a tax receipt to the donor.

DAF donors wishing to pledge a gift have several options. 1) Donor-advisors can ask the DAF to sign the pledge, which most will do if the DAF account already has the funds in it. 2) If the donor-advisor signs the pledge without the DAF, the donor-advisor must omit any reference to the pledge when making the grant request with the DAF. 3) Finally, the donor-advisor can sign a nonbinding giving plan or gift intention document that presents no problem for a DAF to fulfill since there is no legal obligation to do so.

This publication is not intended to provide legal, tax, investment, or other professional advice, and should not be relied upon for such advice. In advance of any charitable gift plan, we encourage you to seek the advice of legal, tax, and investment professionals.

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