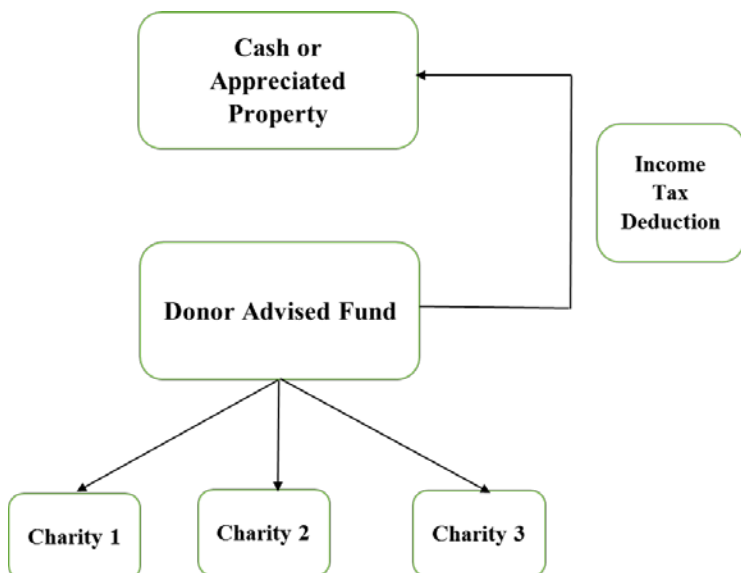


## Donor-advised Funds: A Review for Consumers, Educators, and Planners

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Donor-advised funds (DAFs) are an increasingly popular, efficient way for clients to make donation to the non-profit entities of their choice. This presentation will discuss the history of DAFs, their availability, and the issues surrounding their use in financial planning. DAFs comprise a large part of public giving in the United States with the largest recipient of funds donated in 2015 being the Fidelity Charitable Gift Fund which received more donations than the United Way for the first time (Lindsay, Olsen-Phillips, & Stiffman, 2016).

DAFs were first established in New York in 1931. A contribution to a DAF is treated like a donation to a public charity, and the contributions may be deductible for income tax purposes. DAFs are seen as an efficient and viable alternative to a private foundation. The funds acts as a conduit for the client’s charitable giving as the donation can be made and a deduction taken, but the actual distribution of the funds to a variety of organizations can be made at a later time.



The amount of the available tax deduction may be more favorable using DAFs than private foundations, however, timing differences between the deductibility of the donation and its actual distribution to charitable entities may create a policy issue related to timing. This issue remains a major criticism of DAFs (Vara, 2016).

While DAFs have their origin in community foundations, mutual fund companies and other financial services providers have been in the DAF space since the 1990’s and their role has grown to the point of dominance in the field. By leveraging infrastructure, these organizations have been able to lower the costs of participation so that individuals and families can establish a charitable giving foundation with as little as \$5,000, a substantially lower entry point than is customarily seen with private foundations. Donors choosing to donate through the charitable arm of a financial services firm rather than a community foundation give up certain opportunities such as local recognition and personal attention, but can in efficiency of giving, lower costs, and a wider array of charitable organizations.

Financial planners are frequently reluctant to cede Assets Under Management to the charitable arm of a financial services company but these firms are increasingly willing to work with planners in a sharing arrangement. DAFs are valuable tools for financial planners as they can be used to effectively

dispose of appreciated property, have more flexibility than traditional charitable giving vehicles such as Charitable Remainder Trusts and can even be utilized in a Roth conversion strategy by reallocating capital gains in order to reclassify income.

There has been little research done on DAFs because of their relatively new status in the financial planning space and because of the privacy of the data involved. Opportunities exist in exploring selection factors in selecting DAFs vs. Private Foundations and in comparing DAFs to other vehicles such as Charitable Remainder Trusts and Donor Managed Investment Accounts.

#### References

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