

Guidelines for Donor Advised Funds



Jewish Community
OF GREATER
Foundation METROWEST NJ

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Creating a Donor Advised Fund (DAF) with the Jewish Community Foundation of Greater MetroWest NJ (JCF) is an excellent way to manage your philanthropy, maximize your tax benefits and encourage your family to join you in creating a charitable legacy.

We are pleased to share with you answers to frequently asked questions about policies and procedures for JCF's Donor Advised Fund program.

If you have any questions or would like additional information, please feel free to call a JCF professional 973-326-3113.

Q. What is a Donor Advised Fund (DAF)?

A. A Donor Advised Fund (DAF) – also known as a Philanthropic Fund – offers you an effective means of managing your charitable giving and involving your family in philanthropy. A fund bearing your name - or any name you specify - will be created and you will receive an immediate income tax deduction for your contribution. While you relinquish control over the assets you donate, you do retain the right to make non-binding recommendations as to the distribution of grants from the fund. As a result, you are able to fulfill your philanthropic goals in a flexible, tax-efficient and cost-effective manner.

Q. What are the benefits of establishing a DAF?

A. A DAF with JCF offers special services at a minimal cost. JCF administers the investment of your fund as well as all record-keeping, research and grant distributions. All contributions are acknowledged with a letter to simplify your tax reporting. Quarterly account statements provide a convenient record of your philanthropy and you can access your fund via the Internet at any time. Additional donations to your fund can be made at times that are convenient or tax-wise for you and you can recommend distributions from the fund to qualified charities at any time.

DAFs offer substantial tax benefits. All assets in a DAF grow tax-free. You receive an immediate tax deduction for contributions even though you can defer grant-making recommendations to a later time. You can avoid capital gains taxes for gifts of appreciated assets. (Donations of assets held for at least one year receive the most favorable tax treatment.) A single donation may be used later to provide grants to any number of charities, avoiding the cumbersome process of breaking a security position into many small units. Compared to private foundations, DAFs provide better tax benefits, including higher deductibility limits, no excise taxes on investment earnings, no minimum distributions and no separate tax returns.

Q. How do I establish my DAF?

A. You can create your DAF at JCF by completing a simple application and making an initial contribution. In the application, you may name your fund, designate the individuals responsible for recommending grant distributions, select successor recommenders or a successor charity, authorize interested parties such as accountants and lawyers to obtain information about your fund and choose the investment allocation. Once you complete the application and make a donation to fund your account, JCF opens your account and you may begin recommending grants at any time.

Q. What is the minimum contribution necessary to open and maintain a Donor Advised Fund? What types of assets are accepted?

A. You can create a DAF at JCF with a minimum contribution of \$10,000*. No minimum balance is required. Typically, donors contribute cash or marketable securities or donate by credit card. Other assets, including privately held stock, restricted stock, artwork, insurance policies and real estate may be donated, though typically these types of assets will be reviewed by JCF's legal counsel and will require approval by its Board of Trustees before acceptance. Generally, your DAF will be credited with the net proceeds from the sale of the asset, after taking into account transaction costs such as credit card fees and commissions.

*\$5,000 minimum through 12/31/2018

Q. How do I use my DAF?

A. As a donor, you become an advisor – or recommender – to the fund. Your recommendations may be made online, mailed, faxed, or emailed to JCF. To initiate a distribution recommendation, a recommender submits a simple recommendation form on JCF's password-protected website, DonorSphere. For your convenience, you may recommend recurring grants.

Q. Can others, besides the advisor/recommender, use my DAF?

A. You may name other individuals as recommenders to the fund who may operate independently or in partnership with others.

A successor recommender assumes the privileges of recommending grant distributions and asset allocations upon the death of all donors and original recommenders.

You may authorize your assistant, accountant, tax advisor or other person to obtain information about your fund or to sign grant recommendations or investment recommendations during your lifetime.

Q. Can I use my DAF to make a grant to the UJA Annual Campaign or to other charities?

- A.** You can and should use your fund to recommend gifts to UJA and other qualified charities. However, because your fund's assets already belong to JCF, a recommender may **not** use distributions from the fund to fulfill a personal, legally binding pledge. Doing so would result in an impermissible benefit to the donor, and could potentially subject the donor to penalties.

To that end, if you intend to support an organization and are approached about making a commitment, you should not sign a pledge card. Rather, you should tell the solicitor that, rather than make a pledge, you intend to recommend a distribution from your DAF. You should then make a recommendation on JCF's password-protected website, DonorSphere or via paper form.

Q. What other grants can be recommended from my DAF?

- A.** Grants from DAFs may be made to nearly all 501(c)(3) public charities as recognized by the IRS – secular, Jewish, local and otherwise – as well as to certain supporting foundations. Distributions may also be made to JCF and to any other DAFs held at JCF.

JCF is unable to make grants for non-charitable purposes. For example, to private foundations (operating or non-operating), individuals, or overseas organizations, although grants may be made to U.S. public charities that support overseas charitable activities. Also grants to charities that do not fit within JCF's mission or are made in exchange for more than an incidental benefit are not permitted.

Keep in mind that the federal law expressly prohibits distributions from donor advised funds which confer more than an "incidental" benefit to a donor or a party related to the donor. In fact, recent legislation has enacted a penalty of 125% of the value of the benefit to be levied against the fund advisor who recommended the grant. In addition, a 10% levy can be made against a staff person who knew the grant would result in such a benefit when the recommended grant was approved. An example of an incidental benefit would be token items such as mugs bearing the charity's name or logo.

Examples of prohibited uses of a DAF include:

- Payment of a legally binding, personal pledge that has already been made to a charity. As noted above, when asked to make a pledge, a DAF holder should not sign a pledge card but should state that he or she intends to

recommend a distribution from a DAF. The DAF holder should then submit a DAF recommendation form.

- Payments of school tuition, art auction or raffle for charity, etc.
- Payment of membership dues or sponsorship that confer to the recommender tangible items or tickets to events (e.g., museum galas, etc.). Again, all such expenses must be paid from personal funds. **Please note:** the IRS has deemed that synagogue dues confer only a spiritual benefit and may be paid from a DAF.
- Payment for tickets to a fund raising event - such as a concert, meal, golf outing or similar event – at which the donor receives some benefit. Expenses such as these should be paid using personal funds.

See the next question regarding payment when a ticket or membership has both a tax-deductible component and a non-tax-deductible component.

Q. Can I use my DAF when an event ticket or membership has both a non-tax-deductible component and a tax-deductible component?

A. Often an event ticket will have a non-tax-deductible portion (the cost of the dinner or show) and a tax-deductible portion (the charitable gift). This is referred to as “bifurcation”. The IRS has not provided definitive guidance on whether DAFs may be used for the tax-deductible portion of an event ticket, i.e., a bifurcated gift. In order to provide maximum donor flexibility within permissible parameters, JCF permits donors to use a DAF for the tax-deductible portion and to use personal funds to pay for the non-tax deductible portion. JCF’s policy may change at any time pending further guidance from the IRS or JCF Board of Trustees. Donors should consult their own legal and tax professionals for guidance regarding their donations and recommendations.

Q. Can I pay my synagogue dues using my DAF?

A. The IRS has deemed that synagogue dues confer only a spiritual benefit and may be paid from a DAF. As stated above, tuition for the synagogue’s religious school or preschool may not be paid from a DAF.

Q. How does JCF determine which recommendations will be honored?

A. Before a distribution will be made, our staff reviews the recommendation to ensure that it fits within the legal guidelines discussed above as well as within JCF’s mission. A subcommittee of the JCF Board of Trustees then reviews the recommendations.

Q. Are minimum annual distributions required?

A. No. You can donate to your JCF DAF, take an immediate charitable income tax deduction and at a later time decide which charities you wish to support.

Q. What is the minimum amount for DAF recommendations?

A. \$100 per grant.

Q. How are funds distributed?

A. JCF will issue a check for each approved recommendation and will mail it to the recipient charity. We will include a cover letter informing the charity that the grant was made as a result of the donor's recommendation to JCF and, unless anonymity is desired, we will request that the charity acknowledge receipt to the recommender.

Q. Can I add to my DAF?

A. You may contribute additional funds to your DAF at any time via check, credit card, wire cash transfer or a donation of securities. Online donations are welcomed. You may take a charitable deduction for the full value of each additional contribution. Also, other individuals may also donate to the fund (e.g., for special occasions), receive their own income tax deductions and arrange for a tribute gift notification. As JCF professionals may not provide tax advice, we recommend that you discuss any questions about tax-deductibility of donations with your own professional advisor(s).

Q. How will I know the status of my DAF?

A. You may view your account online via a password-protected link to JCF's website, DonorSphere. You will also receive quarterly account statements in the mail that will include details on contributions, investment earnings, distributions and the total balance of the fund.

The investment pricing information provided online is updated monthly, typically on the 20th day of the month. Data showing contributions and distributions may be updated online more frequently.

Q. As a Donor, will I be taxed on the income earned by the DAF's investments?

A. No. In creating a DAF, you will be making a completed charitable donation to JCF. As a tax-exempt entity, JCF does not pay any tax on its investment

earnings. Thus, balances in the DAF grow tax-free, allowing additional funds to be recommended to qualified charities by the donors and successors in the future.

Q. When and how does a DAF end?

- A.** The DAF will terminate upon the death(s) of all recommenders and successor recommenders or when the donor voluntarily terminates the fund.

Upon the death of all recommenders and successor recommenders, the balance of the DAF will be distributed to a successor charity(s) chosen by the donor or successor recommender. For your successor charity, you may opt to create or add to an Annual Campaign Endowment to support the United Jewish Appeal of MetroWest NJ. If there is no designated successor charity, the balance of the DAF will pour over into the JCF Unrestricted Fund, income from which is distributed for use in the Jewish community locally, in Israel and overseas.

If you wish to voluntarily terminate your fund, the balance may be directed to another qualified DAF or charitable organization.

Q. Does JCF charge a fee for administering DAFs?

- A.** In order to cover the costs involved in administering and investing the assets, servicing fund holders and promoting the benefits of DAFs to other potential donors, JCF charges a reasonable and competitive administrative fee. This fee is subject to change from time to time, pursuant to decisions made by the JCF Board of Trustees.

JCF’s current fee structure is as follows:

<u>DAF Account Balance</u>	<u>Annual Fee</u>
Up to and including \$1 million	1.000%
Over \$1 million to \$3 million	0.500%
Over \$3 million to \$5.5 million	0.375%
Over \$5.5 million to \$10 million	0.250%
Over \$10 million	0.100%

Please note that the administrative fee is progressive. For example, the fee for a \$2 million fund will be as follows:

<u>DAF Account Balance</u>	<u>Annual Fee</u>	<u>Annualized Amount</u>
Up to and including \$1 million	1.000%	\$ 10,000
Over \$1 million to \$3 million	0.500%	\$ 5,000
Over \$3 million to \$5.5 million	0.375%	\$ 0
Over \$5.5 million to \$10 million	0.250%	\$ 0
Over \$10 million	0.100%	\$ 0

Total Fee – Annualized	\$ 15,000
Total Fee – Assessed Monthly	\$ 1,250

Please also note that the minimum annual fee for a DAF is \$350. DAFs opened with \$5,000 to \$9,999 will enjoy an annual fee of \$175 until 12/31/2018.

Q. What are my investment options for my JCF Donor Advised Fund?

- A.** The JCF Board of Trustees and its Investment Committee have provided donors with several investment allocation options. Information about the investment objectives and performance of JCF Pools (Equity, Fixed Income, Managed and Money Market) is available at www.jcfmetrowest.org or from JCF.

Generally, fund holders are limited to two investment allocation changes per fiscal year (July 1 to June 30) in the Equity, Fixed Income and Money Market Pools. Any fund holder opting to allocate funds to the Managed Pool should first have appropriate allocations to other JCF Pools (Equity, Fixed Income, Money Market) or other more liquid assets, allowing for appropriate liquidity to meet distribution needs, and must first review the Managed Pool Disclosure Statement in the DAF application.

Additionally, in order for the donor to choose how the DAF is invested, the fund balance should be kept above \$5,000. If the fund balance falls below \$5,000, JCF will invest it only in the JCF Money Market Pool.

Q. What are the advantages of a DAF compared to a private foundation?

- A.** DAFs provide nearly all the advantages of a private foundation while eliminating the initial and ongoing legal and accounting costs. DAFs offer higher tax deductibility limits, no excise taxes on earnings and no minimum distributions. Also DAFs afford more privacy as there are no separate tax returns made available to the public. DAFs are simpler for donors as there are no administrative burdens involving investments and grants.

Finally, DAFs are an attractive exit strategy for those who created a private foundation and now no longer want to administer one but still wish to centralize their charitable giving in a named fund.

Q. How do I use my DAF in conjunction with a private foundation?

- A.** DAFs can easily be used in conjunction with a private foundation. The 5% minimum annual distribution from a private foundation may be made to a DAF, enabling the donor to defer decision making on grants to a later date.
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Donor Advised Funds provide many of the advantages of a private foundation with very few of the restrictions.

The professional staff at JCF is delighted to provide you with more information about our Donor Advised Fund program and is available to respond to any questions or concerns you may have.

Note: This pamphlet is not intended to be legal advice. Donors should consult their own legal and tax professionals for guidance regarding donations and recommendations. This pamphlet may be modified from time to time to conform to JCF Board policy as well as to legal restrictions affecting Donor Advised Funds.

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Let Us Help You Do a World of Good

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