

DONOR ADVISED FUNDS

and their effect on planned giving and family philanthropy



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Types of Tax-Exempt Organizations

Public Charity (churches, schools, hospitals, etc.)

Raise funds from the public to operate in their area of impact. PFs are designed to give away funds to other charities.

Private Foundation

- Operating
- Non-Operating Social Welfare Organization

Trade Association



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Benefits of Charitable Giving

- Charitable contribution deduction: Cash or Stock?
- Sale of a closely held business interest
- Gifts of stock
 - C corporation vs. S corporation
- Charitable gifting with retained control
- Power of endowment – one-time gift vs. endowment



What is a Private Foundation?

Default tax-exempt organization (defined by what it is not)

Operating vs. Non-Operating

Family vs. Corporate vs. Independent

Compare to Community Foundation like ACF



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Why a Private Foundation?

- Advantages of a private foundation
 - Donor can have legal control over the PF, including over its directors and officers, its charitable grants, and its administration.
 - PF can pay reasonable compensation to the donor and his or her family.
 - PF can operate charitable programs directly and make grants to foreign charities.





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What is a Donor-Advised Fund?

A tax-preferred investment account for charitable giving

- Donor receives the maximum charitable deduction allowed by law



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What is a Donor-Advised Fund?

An alternative to private foundations

- A similar, but simplified tool for charitable giving – no paperwork for the fundholder
- Like a combined charitable savings and checking account
- Donor makes a gift to establish the fund, but can wait to make grants to their favorite nonprofits on their own timeline



Why a Donor-Advised Fund?

Low Cost

- \$5,000 donation (tax deductible) to establish a fund and no out-of-pocket fees to manage
- Ability to spend down principal

Streamlined Gift Accounting

- Gift acknowledgment with every contribution



Why a Donor-Advised Fund?

Privacy

- Funds can be named as the donor wishes (after their family or business, or in a more anonymous way) and gifts from the fund can be made anonymously
- Simple way to involve family



Why a Donor-Advised Fund?

Legacy

- Funds can be endowed to grow in perpetuity, so grants can be made in the donor's name long after they are gone
- Successor advisors can be named when the fund is established to include children in family philanthropy discussions.





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Assets to Gift to a DAF

- Publicly traded securities (including stocks, bonds, mutual fund shares)
- Restricted and controlled stock (appreciated assets)
- Privately held stock
- Real estate
- Life insurance
- Private foundation grants or terminations
- Bequests
- Named beneficiary of charitable remainder trust



S Corporation Stock Donations

HOW IT WORKS



Contributes S Corp stock to third-party charitable trust.

Business owner donates \$1M of S Corp stock with a \$200K adjusted basis.

Third-party charitable trust sells shares.

Trust sells stock for \$1M.
Trust pays UBIT at trust rate:
(\$800K at 15%) = \$120K

Third-party charitable trust donates net proceeds to ACF.

Trust receives a 50% AGI deduction, reducing taxes to \$60K. After fees, the business owner's donor-advised fund at ACF receives \$915K.



When is a DAF a Good Idea?

- Tax Reform
- When more time is needed
- To offset a high-income year
- When there are appreciated investments
- When the donor wants to be anonymous
- When the donor wants to involve family
- Private Foundation mandatory 5% to a DAF



Option for Private Family Foundations

Compared to a private foundation, donor-advised funds offer:

- Less administration – the community foundation handles it for you
- Anonymity – giving and grantmaking can be anonymous if you wish
- Lower entry gift -- \$5,000 vs. \$5-10 million for a private foundation
- Tax advantages – Gifts to community foundations are typically more favorable than gifts to private foundations (i.e. 60% of AGI on cash gifts)



Family Giving Services

With a donor-advised fund, you receive premium services and support from The Center for Family Philanthropy:

- Access to senior staff for fundraising, grantmaking and administrative support
- Annual or semi-annual family meetings
- Access to a network of philanthropic peers
- Legacy perpetuated through grantmaking – now and forever



	Private Foundation	Donor-Advised Fund at ACF
Legal Identity	Separate nonprofit corporation with donor's choice of name	Fund of Akron Community Foundation's with donor's choice of name
Tax Status	Private Foundation	Public Charity
Minimum Size	Generally, \$1 million and up, with \$5-10 million recommended	\$5,000
Taxation of Investment Income	Up to 2% annually	None
Required Payout	5% annually	None
Deductibility of Cash Gifts	Up to 30% of AGI	Up to 60% of AGI
Deductibility of Long-Term Capital Gain Property	Deductible at cost only, except for qualified appreciated securities, which are deductible at fair market value up to 20% AGI	Deductible at fair market value up to 30% of AGI
Administration	Donor responsible for all accounting and record keeping, including detailed IRS annual filing	ACF responsible for all accounting and record keeping; no separate IRS filing required
Grantmaking Expertise	Donor must be knowledgeable or obtain professional advice	ACF staff available to research donor interests, advise donor, monitor grants
Control	Private foundation board has control of distributions and responsibility for asset management	Donor advisor(s) recommend grants for ACF board approval
Upfront Costs	Substantial organizational fees and expenses, plus local, state and federal filing fees of \$700	None
Annual Fees	Legal and accounting fees, insurance, possibly staff and office expenses	Approximately 2%



A person in a dark suit and white shirt is holding a glowing white orb. The orb is the central focus and contains the text. The background is dark, and the lighting is dramatic, highlighting the person's hands and the orb.

Tax Reform: Now What?



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Bunching is “in”

- AGI for cash gifts from 50% to 60%
- 5-year carry forward
- Since the ACT nearly doubles the standard deduction, individuals are more likely to opt for the standard deduction rather than itemize.



What CAN'T you do with a DAF?

- No grants to individuals
- No grants to pay for events
- Org must pass public support test
- No membership dues
- No scholarships from DAFs
- No political support or government entities
- No support of a charitable event which would constitute a quid pro quo
- Grants that require expenditure responsibility are generally prohibited



SECURE Act

- RMD age has been changed from 70 ½ to 72. Doesn't affect IRA rollover.
- Elimination of Stretch IRA: All assets must be distributed in 10 years.
- Consider using RMD to purchase life insurance. Beneficiaries receive proceeds tax-free.
- CRT could be funded at death with IRA assets (deduction for donor) and are taxed to beneficiary but at the stretch rate. At the end of the CRT term, remaining assets go to charity.
- Good for the donor, good for charity



How do nonprofits benefit from DAFs?

- DAFs enhance charitable giving (co-investment)
- Prudent investments for long-term sustainable growth
- Differences between community foundations and commercial entities
- Know who has DAFs. Cross reference or ASK them.



Giving through an IRA

- Required minimum distributions cannot be used to establish a DAF, but they can be used to set up a scholarship or designated fund. Here are some guidelines:
 - Donor must be age 70 ½ or older
 - RMDs must be made directly to charity; not included in income
 - Does not qualify for a charitable deduction, but lowers AGI
 - Up to \$100,000 can be rolled over per individual (\$200,000 for couple)
 - Made permanent in 2015
- To help reduce income tax burden to decedent, advise clients to leave assets that have tax-free income (Roth IRA, Life Insurance) to family, and traditional IRAs and 401(k)s to charity.
- DAFs can accept donations of assets in an IRA at death



Conclusions and Time for Questions

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