

Donor Advised Funds

For individuals and families with strong charitable inclinations, donor-advised funds (“DAFs”) may provide many of the same grant-making and tax benefits of a private foundation, but without the operating expense and administrative burden of creating and running a private foundation.

Financial and Estate Planning Department
Baird Private Wealth Management

BASICS

- A donor makes an unconditional and irrevocable contribution to one of several sponsoring organizations that have established a DAF.
- The donor selects from among various mutual funds in which their contributions will be invested.
- The donor receives an immediate charitable income tax deduction equal to their contributions.
- The donor periodically recommends which individual public charities should receive grants.
- The donor receives periodic reports from the DAF on the earnings and disposition of the funds.
- In some cases, the donors will have the right to designate successor “advisers,” such as their children, who may continue to advise the fund after the donor’s death.

OTHER CONSIDERATIONS

- Because DAFs are designated as “public charities,” contributions to donor advised funds are deductible at the most favorable public charity levels. This allows donors to deduct up to 60% of their adjusted gross income when cash is contributed to a DAF, or up to 30% of their adjusted gross income for gifts of appreciated stock. (These percentage limitations are lower for contributions to private foundations.)
- The donor’s recommendations to the sponsoring DAF as to how the contributions should be used are non-binding, advisory recommendations only. Donors who wish to retain greater control over which individual charitable organizations receive their contributions may prefer the alternative of a private foundation. However, private foundations are complex, can generate costly administrative expenses, and will generally only be practical for charitable gifts of \$1 million or more.

SUMMARY

The tax and practical advantages of a donor-advised fund may provide a flexible and rewarding alternative to a private foundation for many charitably-inclined individuals and families. To find out more about the specific procedures for individual donor-advised funds, or to learn about other planned giving techniques, contact your Baird Financial Advisor today.