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Donor Advised Funds: "Do's" and "Don'ts" for Nonprofits

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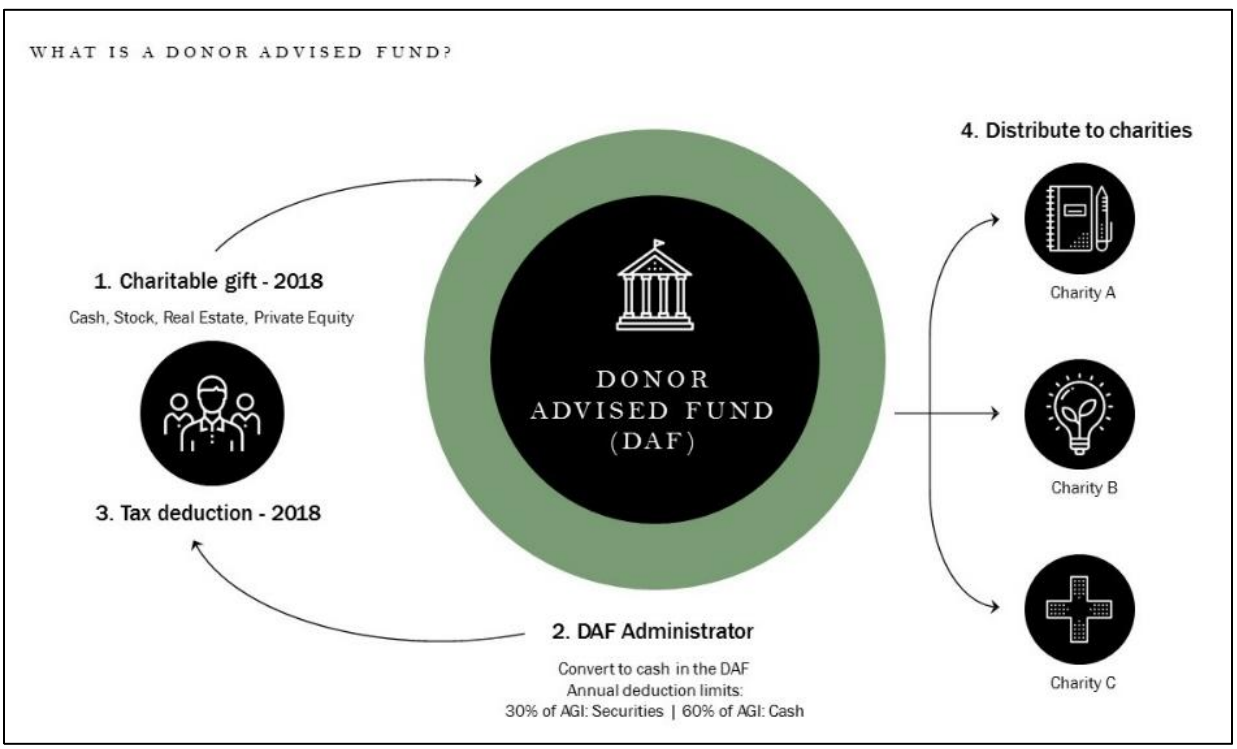
Americans seeking to preserve tax deductions for their charitable giving are increasingly turning to Donor-Advised Funds as part of their tax strategy. This is in response to recent tax law changes and the doubling of the standard deduction. This shift has been significant in recent years and has contributed to a changing landscape in charitable giving. According to the National Philanthropic Trust (NPT), the total number of donor-advised funds increased by 60% from 2016 to 2017 (a total of 463,622 in 2017). Additionally, contributions increased by more than $4 billion from 2016 to 2017. It is essential for nonprofits to be aware of these trends and have the ability to adapt. In this article, we provide more insight into what a donor-advised fund is, the benefits that donors receive and some practical "Do's" and "Don'ts" to keep in mind as you incorporate these changes into your fundraising strategy.

What is a Donor-Advised Fund?

A donor-advised fund is an arrangement where charitable organizations, such as community foundations and national charities, establish separate funds for contributions from donors. The charitable organizations are referred to as "sponsoring organizations," and the individual accounts that are initiated by the donor are referred to as "donor-advised funds" (DAFs).



Contributions to a DAF are tax deductible at the point they are made. In general, the contributions are similar to those made to a public charity and are treated as charitable contributions to a 501(c)(3) organization. Once a contribution has been made to a DAF, the assets can be invested and will then grow tax free within the fund. Grants from the DAF to charitable organizations can then be made at a later date. When DAF account holders make grant recommendations, the sponsoring organization is technically not required to follow the donor's suggestion. However, in practice, sponsoring organizations have a long history of supporting the donor's recommendations about where to donate the funds, as long as the receiving organization is a qualified charitable organization.

Although this arrangement has been around for a long time, DAFs have become increasingly popular in recent years due to the recent tax law changes and the multiple benefits they offer, such as:

1. ***Tax strategy***: Donors receive a tax deduction in the same year they make contributions to their DAFs. By "bunching" their charitable donations in a given year, donors can take advantage of the tax deduction and maximize their itemizations for that year. Contributions are limited to:
   a. *Cash gifts*: 60% of adjusted gross income (AGI)
   b. *Appreciated assets*: 30% of AGI (five-year carry forward for unused amounts)

2. ***Contribute appreciated stock***: Donors can contribute appreciated stock and avoid paying taxes on long-term capital gains.

3. ***Administrative ease***: DAFs can help simplify contributions and automate giving. The DAF holder will receive one tax statement per year for the contributions they make to the DAF. Additionally, donors can automate or distribute their grant recommendations to the charities of their choice over any timeframe they choose.

4. ***Donating complex assets***: Many sponsoring organizations have resources to handle the donation of complex assets, such as real estate, limited partnership interests, or shares of a privately held business. In some cases, they can help with the donations, sale and processing of the asset.

5. ***Legacy***: For some, a DAF can be a way to establish a philanthropic fund and engage their entire family in the giving process. This can be a more low cost and straightforward alternative to setting up a private foundation.

Here are some Do's and Don'ts to keep in mind as you look to modify your fundraising efforts and address the role played by DAFs in the changing landscape of charitable giving.

Do's

✓ **Incorporate DAF-related information into your communications with donors**

- ***Donor Cards***: Include a DAF-giving option on the donor card at fundraising events, such as banquets and galas.

- ***Website***: Update your website to include a "Give from your donor-advised fund" option

- ***Educate***: If your donors do not have a DAF and want to know more, be prepared to educate them and potentially refer to either a sponsoring organization or adviser for help.

✓ **DAFs can be Anonymous: Identify your Donors**

According to a recent NAO survey, 41% of respondents received unexpected donations from third-party payors, many of which came from DAFs. Donors can name their DAF accounts whatever they choose. Unless they explicitly include their names as part of the DAFs, they may intentionally or unwittingly grant donations anonymously, which can present a challenge for donor appreciation efforts and planning purposes. Develop a thoughtful process and communicate effectively with your donors and their sponsoring organizations to help you make the connection on the front end.

✓ **Take advantage of the administrative services offered by *Sponsoring Organizations***

Sponsoring organizations have developed significant resources to help their DAF members facilitate non-cash charitable gifts into their DAF accounts, such as stocks, real estate, and privately held company ownership. Sponsoring organizations can be a valuable resource for nonprofits that do not have the means to facilitate these types of donations directly.

✓ **Understand the Ins and Outs of various Sponsoring Organizations**

One size does not fit all. Different sponsoring organizations have varying minimum amount requirements, fee structures, investment options, and grant-making processes. Navigating the differences will help you better serve your donors and secure their grants. Here are a few practical suggestions:

- ***Automate giving***: Help your donors establish recurring or multi-year automated grants through their sponsoring organization. The process can be different from one sponsoring organization to the next.

- ***Online giving portal***: Fidelity Charitable, Schwab Charitable and BNY Mellon Charitable Gift Fund – three of the largest national charities, have collaborated to establish a giving portal that nonprofits can embed into their websites, allowing donors to give directly from their DAFs to nonprofits. It is free and you can include the link in your website: http://www.dafdirect.org/

- ***Help with jargon***: Fidelity Charitable refers to a DAF as a "Charitable Giving Account" while BNY Mellon Charitable calls it a "Gift Fund." Be ready to understand and interpret the jargon between different sponsoring organizations.

- ***Connect with Community Foundations***: Did you know that the Oregon Community Foundation (OCF) helps donors identify nonprofits for grants? Getting to know OCF or other community foundations can be a helpful resource for your nonprofit and a potential connection with donors.

Don'ts

✗ **Do not view DAFs as a competing organization for your donors' charitable contributions.**
DAFs are a tool for streamlined giving and tax strategy. They are not a final destination for charitable giving. View them as an additional mechanism to maintain or increase funding to your nonprofit.

✗ **Do not provide benefits to your donors in exchange for their DAF contributions.**
Grants to a nonprofit must be for the sole benefit of the charity. Goods or services beyond "de minimis" value are not allowed in exchange for grants, such as:

- Tickets to events or galas
- Auction items
- Raffle tickets
- Bifurcated contributions (breaking out the cost of the event and a charitable donation must come from a non-DAF source)
- Membership fees

*This is not an exhaustive list

✗ **Do not allow your donors to provide DAF contributions for the specific benefit of a named individual, such as scholarship, tuition, etc.**
Donors cannot have discretion as to who receives a benefit from their grant. For instance, they cannot direct their grant to provide scholarship funding for a specific individual that they name.

✗ **Do not encourage DAF grants to individuals or non-qualified organizations.**
Grants from a DAF must be made to another public charity or private operating foundation that is in good standing with the IRS. DAFs cannot make gifts to trusts, such as a Charitable Remainder Trust, private non-operating foundations, or to individuals.

✗ **Do not allow your donor to make a grant from a DAF to satisfy a legally binding commitment to your charity.**

A DAF grant cannot be used to fulfill a legally binding commitment by the donor. Ensure that the grants from your donor's DAF are not used to fulfill a legally binding commitment.

This is an opportune time to incorporate donor-advised funds into your fundraising strategy. Keep an eye out for donors who have already established DAFs or who may be looking for a creative tax-planning approach. While this information may be helpful, please consult your CPA or attorney for specifics about donor-advised funds and how these tax strategies will affect your nonprofit organization and donor base.

Human Investing is a certified B-Corporation, an Oregon-based financial planning firm, and a member of Nonprofit Association of Oregon. Human Investing serves the needs of both nonprofit organizations and individual donors. If you would like to learn more, please feel free to contact Ted Grigsby at: ted@humaninvesting.com.

About the author:

Ted Grigsby is the Director of Human Investing's Nonprofit & Philanthropy practice. He has 17 years of experience in the investment industry, holds his CIMA® credential and is a Master of Science in Finance candidate at the University of Portland. Ted has a passion for serving the nonprofit community and helping his clients achieve their financial goals in a way that aligns with their missions and values.

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