

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.) [For the year 2020 only, individuals that itemize are allowed a deduction for cash contributions made to charities of up to 100% of AGI. The higher 100% of AGI limit does not apply to cash contributions made directly to donor advised funds, or private foundations. It must be an “end” charity. Check with the charity in question regarding their status before contributing.]

- 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

Baird does not offer tax or legal advice. Please consult your tax professional or attorney to discuss your individual situation.

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.

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