

Charitable Giving: Donor Advised Funds

A donor advised fund (DAF) is a contractual arrangement with a sponsoring charity through which donors make irrevocable charitable contributions. Donors and their designees are not required but retain the right to recommend grants to qualifying charities in amounts and frequency of their choosing, according to their contractual agreement with the sponsoring charity.

A DAF is easy to establish and maintain and does not require a custom drafted legal agreement. It is a separate account, owned and controlled by the sponsoring charity.

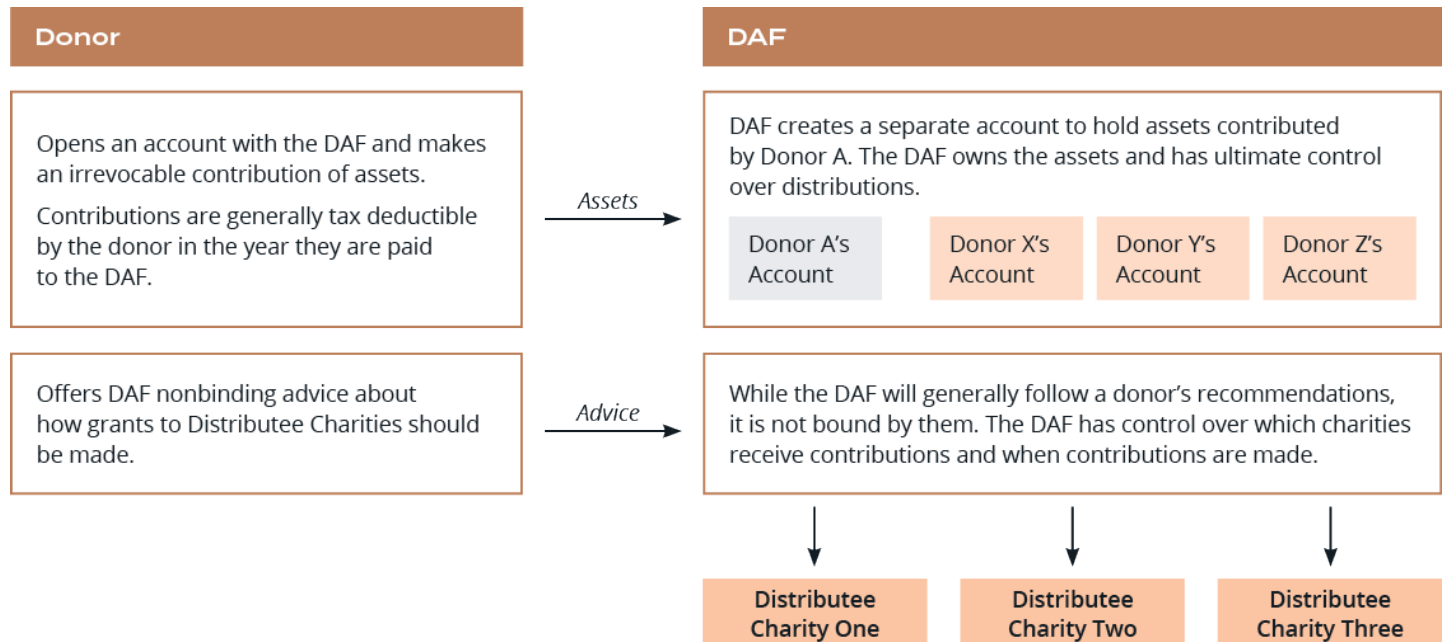
Mechanics

A lifetime transfer to a DAF is treated, for both property law and tax purposes, as a direct transfer to the sponsoring public charity.

The sponsoring charity may be a community foundation, another type of large public charity such as a hospital or educational institution, or a public charity created by and associated with a major financial institution.

Upon the death of the donor, successor advisors may continue to make grants to charities.

See the flowchart below for additional details regarding mechanics of a DAF.



Tax Benefits

- Contributions are tax deductible in the year they are made. Because a donor advised fund is a public charity, contributions qualify for immediate and maximum tax benefits.
 - Deduction for cash: Up to 60% of adjusted gross income (AGI).
 - Deduction for securities and other appreciated assets: Up to 30% of AGI. Gifts of appreciated publicly traded stock are generally deductible at fair market value. Gifts of non-marketable property (i.e., closely held stock, real estate) can also be deducted at full market value; if contributed to a private foundation, the deduction for these assets would be limited to cost basis.
 - Five year carry forward of unused deductions.
- Amounts in a DAF may be used by a charity to satisfy charitable pledges; however, the donor may not direct the charity to apply the grant to the pledge.
- Avoid capital gains on gifts of appreciated property.
- Avoid estate taxes.
- Investments in a DAF can grow tax free.

Non-Tax Advantages

- One key element of a DAF is the ability of the donor and/or his designees to name family members and friends as “account advisors”, thereby promoting family philanthropy.
- The names of individual donors/advisors can be kept confidential, if desired, and grants can be made anonymously.
- A DAF also offers flexibility in the amount, frequency, and timing of donations to programs and charities of special interest.
- Donor advised funds can be an excellent alternative to private foundations because of the ease of administration.

Considerations

There are important differences among DAFs beyond fee structure and available investment options.

Depending on your situation and charitable objectives, important factors to consider include:

- Whether the fund will accept non-traditional assets, such as closely held stock or partnership interests
- The number of individuals who may serve as advisors during your lifetime or after your death
- The presence or absence of requirements to make distributions to the sponsoring charity
- Whether expert advice on grant recommendations is available from the sponsoring charity
- Minimums for contributions and additions

Comparison to Private Foundations

Comparison	Donor Advised Fund	Private Foundation
Tax-exempt status	Shares public charity status with charity.	Must establish separate tax-exempt status as private foundation.
Contribute diverse types of assets	Sometimes, not always. Contributions may be limited to cash equivalents, publicly traded securities, and shares of some mutual funds. In some cases, high-value non-cash assets may be accepted directly by the sponsoring organization or a charitable intermediary to be liquidated prior to deposit and may incur additional brokerage fee.	Yes. Contributions to the foundation may include cash, publicly traded securities, mutual fund shares, publicly traded bonds, cash value of a life insurance policy, IRA assets, real estate, jewelry, artwork, etc.
Charitable deduction for cash gifts	60% of adjusted gross income in any one year.	30% of adjusted gross income in any one year.
Charitable deduction for gifts of long-term capital gain property	Deduction for full fair market value, limited to 30% of adjusted gross income in any one year.	Deduction for full fair market value, limited to 20% of adjusted gross income in any one year.
Donor control	Donor/successors may be allowed to make recommendations as to investments and grants, but charity makes final decisions. For larger accounts (typically \$250,000 or more), the donor may be able to nominate an independent advisor to manage the investment portfolio, subject to the sponsoring organization's authorization.	Donor retains complete control over investments and grant making, limited only by IRS requirements.
Minimum payout requirements	None, except by charity's policy.	Must pay out for charitable purposes at least 5% of asset value regardless of annual income.
Engage family members in grantmaking	Yes. The donor can name additional advisors to participate in all account privileges. The DAF may limit the number of advisors	Yes. Family members may be engaged in the governance, decision making, and day-to-day activities of running the foundation.
Retain financial control within the family in perpetuity	Not always. Successor policies are established by each sponsoring organization and may leave control over the future of the DAF up to the individual successor(s). Typically, the original donor is allowed to appoint one or more successors who in turn appoint their own successors, sometimes for a limited number of generations. Larger DAFs may include an endowment option to continue recurring grants after the death of the last account holder.	Yes, if the board chooses. Financial control can remain within the family for unlimited generations at the discretion of the board of directors or trustees, who are collectively responsible for decisions regarding the disposition of foundation assets and accountable to the foundation's by-laws and operating procedures.

Appoint a board of directors or trustees	No. A DAF is not a legal entity, so it cannot have a board of directors or trustees.	Yes. Once the foundation is established as a legal entity, the donor may appoint a board of directors or trustees and establish operating rules and procedures. At least one board member is required, but the board may be larger depending on the foundation's needs and family's interests.
Creating the foundations	Established by agreement with community foundation or other charity.	Nonprofit corporation or trust organized as a private foundation.
Start-up costs	No cost to donor.	Requires substantial legal, accounting, and operational costs similar to corporate startup.
Practical minimum size	Depends upon charity's policy, often \$10,000 to \$25,000.	Substantial assets required, \$1.0 million and up.
Administration and operations	Provided by the charity.	Must establish, acquire, and manage on its own.
Annual costs	Minimal, usually set by charity on a break-even basis.	Can be costly including administration, accounting, and audit.
Annual taxes	None.	Generally, income tax exempt, but subject to excise tax of up to 2% of net investment gain including capital gains.
Annual filings and returns	None required, reported as part of the charity's annual reporting.	Separate tax and information return must be filed with required schedules.
Investments	Provided by the charity, sometimes with donor's advice.	Must establish, research, and manage own investment vehicles.
Fiduciary responsibility	Charity fulfills fiduciary responsibilities.	Private foundation board has full fiduciary responsibility.
Liability and risk	Charity covers liability and risk.	Must be provided by the foundation.

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