



# Donor Advised Funds and Foundations

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# Agenda

- Brief overview of Private Family Foundations and Donor Advised Funds
  - Compare and contrast the two – taxation, costs to establish and maintain, primary benefits
  - 20 mins. of information, 10 mins. Q&A
  - *Disclaimer: Consult with an attorney or accountant who specializes in this area if the need arises*
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# What is a Charitable Foundation?

- Broadly speaking, a foundation is a nonprofit corporation or a charitable trust that makes grants to organizations, institutions, or individuals for charitable purposes
    - Corporate Foundation
    - Family Foundation
    - Community Foundation
    - Supporting Foundation
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# Family Foundation Characteristics

- Family Foundations are their own individual, legal, entities
  - Donor and board of directors have complete control over all grants and investment decisions
  - Must disclose list of grants to organizations
  - Currently about 40,000 in the USA
  - Majority (67%) have less than \$1M in assets
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# Family Foundation Costs and Taxation

- Significant startup costs – overall can run \$5k-\$30k
  - Must file yearly tax returns
  - IRS requires yearly payout - 5% of net asset value
  - Foundation manages distributions
  - Tax deduction of **30% of AGI** for gifts of cash
  - Tax deduction of **20% of AGI** for gifts of stock
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# Donor Advised Funds Characteristics

- A fund within a Sponsor Organization (SO)
  - Irrevocable gift to SO with 'advisory' properties
  - Distributions can be kept anonymous
  - Currently above one million DAFs in the USA
  - Average account size is about \$115,000
  - Current payout percentage is about 30%
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# Donor Advised Funds Costs and Taxation

- Minimal start up costs
  - NO yearly tax returns
  - No current required yearly payout
  - Foundation manages distributions
  - Tax deduction of **60% of AGI** for gifts of cash
  - Tax deduction of **30% of AGI** for gifts of stock
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# Side by Side – Family Foundations Vs. DAF

Donor Advised Funds	Family Foundations
Donor Advised Funds are typically established with a sponsor or umbrella organization, such as a community foundation. This is an irrevocable gift to the umbrella organization who then legally owns the funds.	Family Foundations are their own individual, legal, entities.
Typically \$5,000 - \$10,000 to establish and range to multi-millions.	Most advisors recommend a \$5 million to \$10 million minimum amount.
Minimal start up costs.	Significant start up costs, often involving professional advisors, such as attorneys or accountants. A foundation is its own legal entity requiring ongoing support.
Distributions from DAFs can be kept anonymous.	Foundations must file tax returns which are public records. Information required includes name of board and staff members as well as any compensation, donors, and grants to organizations.
There is currently no IRS requirement on annual payout.	The IRS requires annual expenditures of 5% of net asset value. This may be comprised of grants and qualified administrative expenses.
The sponsor organization must approve all grant decisions. Although uncommon, they do reserve the right to deny making a grant.	Donor and board of directors have complete control over all grants and investment decisions.
Tax deduction of <b>60%</b> of AGI for gifts of cash; deduction of <b>30%</b> of donor's AGI for gifts of stock.	Tax deduction of <b>30%</b> of AGI for gifts of cash; deduction of <b>20%</b> of donor's AGI for gifts of stock.
Many sponsor organizations have user friendly technology platforms which make it simple to recommend a gift.	As an individual legal entity the foundation would need to manage distributions of gifts and checks, etc.

*Main benefits: simplicity and anonymity*

*Main benefits: control*



# ACE Act – Changes to DAFs

- Bill introduced in June 2021 (Senate) and February of 2022 (House).
  - Designed to address concerns about DAFs not making distributions.
  - Creates two difference types of DAFs:
    - 1) Qualified DAF: Requires termination of the donor's advisory privileges after 14 years.
    - 2) Qualified Community Foundation DAF: DAF must be housed at a Community Foundation, account must be less than \$1M or advisor must agree to 5% distribution per year.
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# ACE Act – Changes to DAFs

- No charitable deduction for gifts to **most** currently existing DAFs
    - No deduction until sponsoring organization actually makes the distribution to charity
    - If non-cash property is given, no deduction until SO sells the property for cash
    - Must be distributed within 50 years of donation (or excise tax imposed)
  - Excise Tax Possibilities – **50%** on any DAF value not distributed within required time frame. Tax would not apply to the Qualified Community Foundation DAF.
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Questions?





Happy Hour Joint  
Networking Event  
Date: September 8  
Time: 4-6 pm.

Peel Wood Clayton

- ▶ EPC, SLCCGP, NAIFA – Members FREE
- ▶ Guest: \$35
- ▶ Registration  
[www.epcstlouis.org](http://www.epcstlouis.org)



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**For the month of July, the annual Estate Planning Council dues are reduced to \$125.**

**Register now before it's too late.**

## **Early Bird Registration**

