



Increasingly, as investors seek opportunities to support causes they believe in, they want to do more than simply write a check. They want to deliver long-term impact, have a voice in how donated funds are distributed to charities, and establish a philanthropic legacy, all while enjoying tax benefits.

Donor-Advised Funds (DAFs) deliver on all of those requirements and more. That's why the DAF has become the nation's fastest-growing philanthropic vehicle over the last decade. In 2018 alone, donors contributed \$37.12 billion to DAFs, according to Giving USA, and DAFs distributed \$23.42 billion to nonprofits.

### How does a DAF work?

A donor makes a gift to a sponsoring charity (MS GIFT, for example), which then establishes a Donor-Advised Fund on the donor's behalf.

The donor(s) can even name their fund (The Twain Family Fund, for example). The funds are invested, and DAF growth is used to support charitable organizations through grants. The donor gets an immediate tax benefit for the initial contribution and can avoid capital gains taxes on appreciated assets. Once the fund is established, a donor can contribute to it as frequently as desired and receive tax benefits from those ongoing contributions. Grants from the fund can be made to nonprofits as frequently or infrequently as seems appropriate.

Although the donor no longer owns the assets contributed to the DAF, if desired he or she can guide how the assets are invested and recommend grants made from the DAF to nonprofit organizations – a power that remains with the donor for life and can be passed on to future generations.

### Why Investors Choose DAFs

DAFs deliver both tangible and intangible benefits to donors:

#### Charitable Impact.

DAFs allow donors to have an immediate and ongoing impact on causes important to them.

#### Reduced Tax Costs.

DAFs can help investors avoid capital gains taxes and get immediate income tax deductions.

#### Ongoing Influence.

DAFs allow donors to have a say in what charities benefit from a fund's proceeds and also in how DAF assets are invested.

#### Legacy of Giving.

A donor can involve others in making grant recommendations and pass the opportunity to make recommendations on to future generations.

**Anonymity.**

If desired, funds from a DAF can be distributed anonymously.

**Specificity ... or Broad Impact:**

DAFs can be set up as targeted funds or to benefit a broad range of causes.

**Distribution Flexibility:**

Donations from a DAF may be any size and may be executed at any time.

**Return on Investment:**

The Global Impact Investing Network reports that 88% of respondents said their impact investments met or exceeded their expectations in financial performance.

**When is a DAF Appropriate?**

DAFs can always be a worthwhile part of a portfolio, but they can be especially helpful for investors in certain specific times:

- When a donor wants a charitable tax deduction to offset a taxable event.
- When a donor faces capital gains taxes on appreciated assets.
- When a donor is nearing retirement.
- When a donor is about to experience or recently experienced a major liquidity event, such as an IPO on a company in which the donor has ownership, a large inheritance or the sale of a business.
- When a donor has become passionate about particular causes or charities.
- When a donor needs to dispense of assets for tax purposes.
- When a donor's children or grandchildren have reached an age when they can become involved in family giving.
- When a donor wants to give charitably without dealing with record-keeping, receipts tracking, etc.
- When a donor desires a flexible, simple process for giving.

**88%**

of donors said DAFs met or exceeded their impact expectations.

(Global Impact Investor Network's Annual Survey)

**Quick take: DAF Details**

- DAFs must be created and maintained by a public nonprofit organization.
- DAFs are irrevocable trusts.
- DAFs are segregated – funds may not be moved from a DAF to other types of funds.
- DAFs can last for generations, allowing a donor to continue a giving legacy well into the future.