

## Donor Advised Funds: The Flexible Giving Alternative

By Richard B. MacKinnon and Kenneth G. Y. Grant

In recent years donors large and small have discovered Donor Advised Funds (DAFs). The reasons are simple: DAFs are easy to establish and they are very flexible.

Donor Advised Funds are charitable gift funds that accept tax-deductible donations and invest these assets until the donor requests that grants be made from the fund to another IRS qualified charity.

How does it work? A donor opens a Donor Account at a community foundation or commercial gift fund (often managed by a mutual fund company). Boston Private Bank, for example, partners with Advisors Charitable Gift Fund. The donor—let's call her Donor A—funds her donor account and names it the Donor A Family Fund. She may receive a tax deduction; Boston Private Bank's portfolio managers invest the funds. Later, Donor A can recommend grants to qualifying nonprofits over an extended period of months or years.

This reveals an important feature of DAFs: they remove time pressure and help make giving strategic instead of impulsive. If Donor A wants to give 10 percent of the proceeds from the sale of her business to charity, but in the flurry of activity leading to the closing of the sale she does not have a chance to reflect on the gift, a DAF easily takes the pressure off. Under current law, Donor A gets an immediate tax deduction in the year of the sale, but has time to plan her giving.

Although gifts to a Donor Advised Fund are irrevocable, DAFs typically allow the donor to retain the ability to recommend gifts from the fund to any IRS-approved public charity. The donor's gift is invested in pooled investment vehicles and the donor receives quarterly investment statements. Generally, there is a choice of investments, much like a 401(k) plan, and the donor may request that the gift be allocated to the various funds to suit her time frame and investment outlook. Requests for gifts and asset allocation selections are typically honored by the DAF-sponsoring organization. Remember, however, that the assets now belong to the sponsoring charity, so the donor does not have direct control as in the 401(k). It should also be noted that investment gains in a Donor Advised Fund can enlarge the size of the donor's fund, but do not create additional tax benefits for the donor. As is the case with any investment product, contributions to a DAF are not bank-guaranteed or FDIC-insured against potential losses in market value.

Your DAF account can be funded with cash or appreciated securities. Gifts of real estate or artwork are generally beyond the scope of DAFs. The value of a gift of appreciated securities, for tax purposes, is the midpoint of the price spread for the stock on the day the gift is received. Gifts of securities are sold immediately and the value of the gift to the DAF, or the amount

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available for grants, is the liquidated value of the securities, which, of course, might be more or less than the tax value of the gift.

Your choice of a DAF-sponsoring organization will no doubt be based on personal preference and your situation and timing. Large organizations may have more investment choices, whereas smaller organizations tend to offer more personal service and flexibility. For example, a big mutual fund company can offer a great variety of funds but may not be able to accept a gift of appreciated securities after the middle of December. Conversely, a more nimble smaller firm could process the appreciated securities right up until the end of the year. Depending on the size of the grants you envision, you may also wish to ask if grant-making assistance is available from the DAF sponsor you are considering.

Donor Advised Funds are a great alternative to private foundations, unless, of course, you are Bill and Melinda Gates. While we always recommend that you consult legal and tax counsel in these matters, you may want to consider replacing an existing private foundation with a DAF. Why would you do that? Privacy is the first consideration. When you file your 990PF each year you are effectively posting the names of all involved— yourself and your board—on the internet. That filing is public information. With a DAF you gain privacy. Then there is the fact that you have to file a 990PF in the first place. This, too, is eliminated, along with the excise tax. The minimum distribution rule doesn't apply either under current law. Larger donations can generate deductions of up to 50 percent of your adjusted gross income (AGI), as opposed to the 30 percent allowed with a private foundation. Finally, your DAF can go on in perpetuity as you name successors to continue grant making.

That final point leads us to one of the best advantages of DAFs over ad hoc giving. Many families find DAFs to be wonderful vehicles for teaching children and grandchildren the joys, benefits, and responsibilities of philanthropy. What better way to teach than to set up a family grant committee involving the children? You might consider giving them a budget and helping them develop their own granting program. The possibilities are endless, but the transfer of values is priceless.

Donor Advised Funds are modern giving tools that today's more sophisticated donors have embraced in great numbers. The simplicity of implementation, ability to make grants over time while suggesting asset allocation for the investments, and the lack of paperwork and filings make Donor Advised Funds perfect for a busy donor who wishes to make his giving strategic and more rewarding.

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