

# Donor-Advised Funds: Tools for Giving Families

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*Wanted: Tax-Advantageous, Convenient, Flexible Way to Give Back. Giving Family Seeks Way to Make Difference Privately. Must Love Children.*

Families looking for less time-consuming but still informed and effective ways to give back are increasingly turning to donor-advised funds, either exclusively or in tandem with other giving vehicles, such as private foundations.

This month's *Family Giving News* looks at how donors are employing these vehicles in pursuit of their charitable goals.

## The Donor-Advised Fund

Donor-advised funds are irrevocable gifts to a public charity, such as a community foundation, federation, commercial gift fund, or, more recently, some colleges and universities, over which the donor retains the ability to advise the charity concerning distributions from the fund's income and sometimes the principal.

Today, there are more than 106,000 donor-advised funds at host organizations around the country, according to the National Philanthropic Trust, an independent public charity dedicated to increasing philanthropy. Together, they hold \$21.6 billion in assets and distribute \$12 billion to charity every year.

Along with this growth has come considerable media and Congressional scrutiny. Families considering donor-advised funds should be careful to choose an experienced, reputable host

organization with a strong record of regulatory compliance.

With the help of such a host, advised funds have a number of advantages over other giving vehicles:

### Convenience

"Simple, flexible, and efficient—those are the keywords when it comes to donor-advised funds," says Kenny Emson, Senior Vice President of Development and Donor Services at the Community Foundation for the National Capital Region in Washington, DC.

As donors begin to give while they live and give earlier in life, philanthropy is no longer something left to a bequest or until retirement. Younger philanthropic families may be pressed for time caring for young children, establishing careers, or earning degrees.

"With a donor-advised fund, there's less onus on the family to meet regularly, or do paperwork," says Emson. "They can do grantmaking more freely."

North Carolina donor Len White agrees.

"The Community Foundation of Greater Greensboro had a program that gave us a simple way of setting up a fund, getting a tax deduction for the whole amount in the first year, and then recommending [grantees] down the road," he says. "It gave us time to consider what we wanted to contribute to, while allowing the

foundation to earn fees off the management of the fund.”

Many host organizations are expanding their offerings to assist families in their grantmaking.

"Our work with donors who have donor advised funds is as comprehensive as our donors would like it to be—depending on many factors, including stage of life, and amount of time," explains Audrey Jacobs, Director of the Center for Family Philanthropy at the Community Foundation for Greater Atlanta. "We help donors with all aspects of philanthropic planning. We help families develop mission and vision statements, and conceptualize a long-term plan. We issue RFPs, process applications, conduct research on issues and organizations, facilitate family meetings and site visits; and help a family make decisions around grantmaking."

Because much of the administrative heavy lifting is handled by the host, donors are free to be as philanthropically engaged as their family circumstances permit.

### **Tax benefits**

Among the principal reasons cited by donors for creating a donor-advised fund are the tax advantages. Gifts of cash to advised funds are tax-deductible up to 50% of Adjusted Gross Income, compared with up to 30% of AGI for gifts of cash to private foundations. Unlike private foundations, donor-advised funds are not subject to the excise tax on investment income or to a payout requirement. And because they are public charities, host organizations can also accept a variety of gifts—such as art, land, and closely held business assets—often with significant tax benefits.

### **Privacy**

Families concerned about privacy may prefer donor-advised funds as well. Public charities are required by law to make their tax returns publicly available, but they need not disclose the names of donors. And while host organizations will list their grantees, they do not have to disclose which fund provided the funds. Gifts to donor-advised funds can thus be kept confidential, and gifts from them can be made anonymously.

"I chose a donor-advised fund primarily because of the privacy it afforded," says a New England donor. "I didn't want my family to be bombarded by grant requests. I'd rather the credit and any publicity go to the nonprofits we're supporting, so giving through the community foundation just made sense for us."

### **Geography**

Whereas a family and its philanthropy may have once been rooted in a particular town, city, or state and its concerns, today's families are dispersed around the country. Donor-advised funds, particularly those hosted by community foundations, allow families to connect and reconnect with the communities they care about.

One couple recently created a donor-advised fund at the local community foundation for their newly married daughter and son-in-law so that the newlyweds could stay connected to the community even as they built a new life elsewhere.

Dispersed philanthropic families often rely on their community foundation partners for important insight into community needs and potential grantees.

“We have in-depth knowledge of the community,” explains Jacobs. “Donors who are interested in serving and contributing to the metro Atlanta area will come to us and we’ll share the knowledge and expertise that we have.”

## Diversity

Just as personal and professional obligations can pull a family in different directions, families find their own philanthropic values can pull them in different directions as well. Family members are not always interested in the same things, leading them to turn to donor-advised funds to support individual as well as collective goals.

If a family foundation’s mission involves funding human services or education, one or more family members might create a donor-advised fund to support the arts or the environment.

“It’s common for families to keep a fund for a mutual goal and spin off multiple donor-advised funds to attack different areas,” says Emson.

## Engaging the next generation

The ease with which donor-advised funds can support the charitable visions of family members in different places with different interests also makes them important vehicles to engage a new generation of donors.

In her book, *The Giving Family*, National Center Vice President Susan Price tells the story of Georgia Welles of Bowling Green, Ohio who created the Granny Fund in 1998 for her 14 grandchildren.

The Fund is composed of five different funds at community foundations around the country in the cities where her grandchildren live. Each fund was given \$25,000, and the grandchildren

were told that they were responsible for how the interest would be distributed.

“It’s up to them to choose whether to pool their funds with their siblings or make individual decisions,” she says.

## Things to Consider

Despite these advantages, donor-advised funds might not be for everyone. Donors that want to secure greater administrative and investment control over philanthropic dollars, to develop their own trained and expert staff, and to create a stand-alone institution dedicated to their philanthropic goals might prefer a private foundation.

For many donors, though, the choice of giving vehicle is not an either-or question.

A single charitable family might have a family foundation, a number of charitable trusts, and several donor-advised funds, each with its own purpose and strategy.

“We see quite a number of multiple-vehicle donors,” says Kate Guedj, Vice President for Philanthropic and Donor Services at the Boston Foundation. “Some have multiple donor-advised funds and multiple private foundations.”

Today, advised funds are not necessarily seen as alternatives to other giving vehicles but as potential complements to a family’s other philanthropic ventures.

It is important for giving families to consider what they would like their philanthropic dollars to accomplish and choose the giving vehicle or mix of giving vehicles most likely to achieve those goals in keeping with their values.