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The Swiss Army Knife of Charitable Planning

A summary of DAFs, how they compare with private foundations, and several creative DAF uses that can be helpful to philanthropic clients.

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There are a variety of philanthropic vehicles that can be used to carry out one's philanthropy. Each vehicle has its own rules, benefits, and restrictions. Private Foundations, for example, work well for individuals or families who want to give now, but have more control over the distribution and use of philanthropic funds in the future. On the other end of the spectrum, an outright gift to charity can provide the greatest tax benefits to the giver but offers no control once the gift is made. Donor-advised funds (DAFs) have emerged in recent years as a popular and versatile giving vehicle. In fact, the authors of this article consider DAFs the Swiss Army Knife of charitable planning because of the flexibility they can provide. DAFs can be a great way to carry out philanthropy while providing increased tax benefits compared to a private foundation and can be effectively used for gifts of complex assets. Characterizing donor-advised funds as "charitable savings accounts" (as they are often likened to) is an over-simplification. Donor-advised funds, which have been the fastest growing philanthropic tool for almost two decades,[1] allow philanthropists to achieve a multitude of objectives including alignment of family values, social impact investing, philanthropic impact, and wealth planning. Included in this article is a useful summary of DAFs, how they compare with private foundations, and several creative DAF uses that can be helpful as you advise your philanthropic clients.

For families of wealth who are charitably inclined, which is estimated at 85% for families with $1 million in net worth excluding primary residence,[2] an estate and wealth transfer planning conversation is no longer optional. It should be considered a best practice. Read on for the latest strategies that leverage donor-advised funds as part of an estate and gift plan. This article will outline common client scenarios for which a donor-advised fund should be considered as a solution.

DAF Basics

DAFs date back to the 1930s but were not specifically addressed by the Internal Revenue Code until after the passage of the Pension Protection Act of 2006.[3] Donor-advised fund programs are administered by 501(c)(3) charitable organizations considered 170(b)(1)(A) public charities for tax deduction purposes. Because of

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this tax status, donations to DAFs generally provide the maximum amount of tax benefits to the donor.[4] Charities that administer DAF programs are referred to as a charity sponsor. DAFs have traditionally been administered through community foundations, but in the 1990s, several financial institutions created 501(c)(3) organizations to operate DAF programs. The largest nonprofit in the United States today is Fidelity Charitable, a charity created by a financial institution to operate a DAF program.

A DAF is created when a donor establishes an account at a charity sponsor. When establishing such an account, the donor will choose an investment strategy for the assets transferred, who the DAF grant advisor will be, whether there will be additional advisors, and what happens to any remaining funds after the donor's lifetime. Once an account is established, the donor can then contribute cash, stock, or any other asset acceptable by the charity sponsor such as real estate or a closely held business interest. The charity sponsor will typically liquidate any assets soon after the contribution and invest the proceeds according to the donor's specified investment preference. Once contributed assets are liquidated, the donor or whoever is designated as the grant advisor can make grant recommendations to approved 501(c)(3) organizations (public charities).[5] It is important to note that the donor/advisor merely has advisory privileges and does not have control over donated assets. This is one major distinction of a DAF from a private foundation. The donor gives up control of assets to the charity sponsor and simply retains privileges to request grants be made to qualified charitable organizations. This distinction has recently been tested through two court cases[6] and in both cases the courts have sided with the charity sponsor. It is also important to note that most charity sponsors, while having complete control, are generally charity agnostic in grant recommendations. As long as the recommended charity is qualified to receive DAF grants, the charity sponsor generally will not oppose a grant recommendation. It is important to check with the DAF sponsor prior to setting up a DAF, however, as some do have restrictions on the type of charities it may issue grants to or may require a certain percentage of contributed assets be granted annually or to the charity sponsor. For example, a number of universities have started their own DAF programs and they may require a certain percentage of the DAF to support causes at that university. As another example, some religious organizations also sponsor DAF programs and may require grant recommendations to be made in accordance with religious tenets.

DAF and Private Foundation Differences

For the majority of ultra high net worth individuals and families who want a formal structure for their philanthropy, the choice is often between a DAF and a private foundation. Private foundations have a longer history and philanthropists tend to be more familiar with them. It is not surprising to find the total value of assets in private foundations is larger than the amount in DAFs.[7] The number of DAFs and the total dollar value in them, however, has been increasing over the last several years.[8]

There are significant differences between private foundations and DAFs that are important to be aware of when advising clients whether one or both charitable vehicles are appropriate to carry out their intended philanthropy. First, consider the set up cost and annual costs. Most DAFs do not have a set up cost and annual costs consist of paying the DAF administrative fee and investment fee, which are often fairly minimal. To establish a DAF, the client simply needs to submit an application to the charity sponsor and when the account is approved, transfer assets to the fund. There may be a cost to the donor for the charity sponsor to perform due diligence on receiving complex assets such as real estate or a closely held business, and there also may be costs to liquidate assets transferred to fund the DAF. Some DAF providers may apply those costs to the DAF account rather than have the donor pay out of pocket. Doing this reduces the amount the donor has available for grant recommendations from the DAF.

Set up costs for private foundations, on the other hand, require formation documents to be drafted. In addition, the Application for Recognition of Exemption, under Section 501(c)(3) of the Internal Revenue Code, must be filled out and submitted to the Internal Revenue Service. Once the foundation is formed and exempt status applied for or approved, there are additional operating costs such as preparing and filing the foundation's annual income tax return, payment of tax on net investment income, ensuring the annual minimum required distribution is made, and legal costs to ensure compliance with all foundation rules such as those found in Sections 4941-4946. It is important to confirm with clients that they are prepared to perform the necessary tasks to remain in compliance or are willing to expend funds to ensure these tasks are completed timely.

While private foundations have existed longer and are a well-known tool

1 National Philanthropic Trust, The 2022 DAF Report.

2 2023 Bank of America Study of Philanthropy: Charitable Giving by Affluent Households.

3 National Philanthropic Trust, What is a Donor-Advised Fund (DAF)? Accessed 2023.

4 The Coronavirus Aid, Relief, and Economic Security Act (CARES Act) allowed for a 100% of adjusted gross income limitation for cash gifts to public charities in 2020, which was extended for tax year 2021, but specifically excluded contributions to donor-advised funds.

5 Tax deductible public charities under I.R.C. Sections 509(a)(1) and 509(a)(2) and exempt under I.R.C. Section 501(c)(3).

6 *Pinkert v. Schwab Charitable Fund*, No. 20-cv-07657 [CITATION?] (Jan. 2021), *Fairbairn v. Fidelity Investments Charitable Gift Fund*, No. 18-cv-04881 [CITATION?] (N.D. Cal. Feb. 2021).

7 Per the National Philanthropic Trust 2022 DAF Report, there is an estimated $1.303 trillion in private foundation assets and an estimated $234.06 billion in DAF assets.

8 Per the National Philanthropic Trust 2022 DAF Report, there was an estimated total of 1,285,801 DAF accounts in 2021.

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for carrying out family philanthropy, these days, the authors are more frequently finding families who do not want the administrative burden or costs of a private foundation. These families are discovering they can achieve most of what they want to accomplish through a DAF. They can still hold their family meetings to decide which charities will receive grants without being tied to the ticking clock of the tax year to make a required distribution. This freedom allows them to spend more time considering where their grant dollars will have the greatest impact or even allows them to save up for a transformational gift. Further, the lower funding amounts to establish a DAF, in addition to the lower operational costs, opens up this world of strategic philanthropy to a much larger audience.

DAFs can be a great way to carry out philanthropy while providing increased tax benefits compared to a private foundation and can be effectively used for gifts of complex assets.

Another benefit of a DAF is the ability to give anonymously. The authors increasingly find donors who want to support a charity, but do not want to be on the charity's radar for a number of reasons. One of the most mentioned reasons is the donor fatigue of continually being asked for more. They do not want to keep receiving solicitations or be contacted by the charity. Also, more and more families do not want the attention that a large donation can bring. They truly want to give for altruistic reasons and do not desire any recognition.

Some families who want their children and grandchildren involved in the family philanthropy occasionally desire to have those family members receive reasonable compensation for their work on behalf of the foundation. This is one aspect where a private foundation may be preferable for a family. With a private foundation, family members can receive reasonable compensation in accordance with Internal Revenue Service guidelines.[9] A DAF cannot pay compensation to family members. If compensation to family will be part of a private foundation, it is important to also check state laws to ensure compensation is allowable. There are additional goals that donors may be able to accomplish with private foundations, such as making financial hardship/disaster relief grants directly to individuals, awarding scholarships to individuals, and securing naming rights. With regard to naming rights, foundations provide a party to the contract that can monitor the terms of the naming agreement beyond the donor's death.

DAF Funding Assets. One major consideration when choosing a DAF vs. a private foundation is the funding asset. The tax benefits for funding a donor-advised fund are almost always more advantageous to the donor than funding a private foundation. For example, if a client funds either a private foundation or DAF with cash, the charitable income tax deduction allowed is the value of the cash contributed for both a foundation and a DAF, but there is a difference in how much of that deduction the donor can use in a given tax year. Under current tax laws, the charitable deduction for a cash contribution to a DAF can be used for up to 60% of the donor's adjusted gross income in the year of donation. That limit drops to 30% of adjusted gross income if the contribution is to a private foundation. In both cases, any deduction that cannot be used in the year of contribution can be carried forward for up to the next five years.

While cash is the easiest asset to give to a donor-advised fund or a private foundation, cash is also the most expensive asset to give to charity. In most cases, gifting appreciated property, where the appreciation is long-term capital gain, is the most tax-effective asset to gift to charity. That is because for an outright gift of this asset type, the donor is not taxed on the built in appreciation. In addition to a bypass of the capital gain, the donor may be able to receive a fair market value charitable deduction.

One of the easiest assets to donate in this category is publicly traded stock, but other non-liquid asset gifts can work as well. Some examples include closely held C corporation stock, an interest in a limited liability company (LLC), stock in an S corporation, a limited partnership interest, or real estate. When gifting any of these assets to a DAF, it is critical to work with the charity sponsor to ensure it will accept the gift. The DAF charity sponsor should have its own due diligence process in which it will thoroughly review the assets and any associated risks. When gifting such assets to a private foundation, it is highly recommended to have qualified counsel review to ensure the donation does not cause major issues such as a self-dealing violation, unrelated business taxable income, and excess business holdings, to list some of the more common issues that can arise. When gifting an interest in a business, it is also important to be aware of any minority discounts that may be applied when the business interest is gifted. Minority discounts will likely apply when the interest gifted is 50% or less and will reduce the value of the charitable deduction. Also, for gifts of interests in pass through entities, ordinary income assets such as hot assets (e.g. inventory and account receivable) may also reduce the amount of the charitable deduction.

Gifts of these asset types are where a large disparity between DAFs and private foundation is most noticeable. Because a DAF sponsor is a public charity, donations are eligible for a fair market value deduction. Contrast that with donating the same asset to a private foundation.

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Only gifts of cash and qualified appreciated stock[10] to a private foundation qualify for a fair market value deduction. Gifts of any other assets are eligible for a deduction at cost basis. Commonly, donors with complex asset types have a very low cost basis, which if donated to a private foundation will provide little if any charitable deduction. There is still the benefit of bypassing the capital gains tax on sale and the resulting sales proceeds that can be used for charitable purposes. While most donors do not give to charity solely for the tax benefits, the authors find that tax benefits are still a major consideration. In addition to the amount of the deduction, it's also important to be aware of how much of the deduction the donor can use in a given tax year. Recall that use of a charitable deduction will depend on the donor's adjusted gross income (AGI). For example, a donation of cash to a DAF can be used for up to 60% of AGI while cash gifts to a private foundation can only be used for up to 30% of AGI. For gifts of appreciated property to a DAF, including gifts of qualified appreciated publicly traded stock, the charitable deduction can be used for up to 30% of AGI, while any other gift of appreciated property to a private foundation is limited to 20% of AGI.

The following five examples illustrate the flexibility and creative uses of donor-advised funds to help families carry out their philanthropy in a cost efficient and tax-favored way. These examples highlight why DAFs can be considered the Swiss Army Knife of philanthropy.

Case Study One: Socially Minded Client with Generational Wealth. More and more, clients are concerned about the environment or wish to "do no harm" with their charitable dollars. While this desire usually stems from the client's values or life experience, it can also come from a place of shame or the belief that reparations are due. For example, consider a family whose first-generation wealth-creators made their fortune from logging and become staunch environmentalists. In this scenario, the client is very philanthropic – supporting more than 100 charities annually with sizable donations. A perpetual pain-point for the client is that their investment portfolio is overburdened with low-basis inherited stocks that have greatly appreciated over decades. Rebalancing their portfolio to align with their selected asset allocation triggers unwanted capital gains tax. Despite years of targeting these highly appreciated securities for stock gifts to favored public charities, it has not made a dent. To add to their consternation, these securities are issued by companies that do not meet the client's high standards of environmental stewardship.

In this situation, the client's wealth advisors and attorneys collaborated to find a solution for the client. They worked together to understand the client's priorities and motivations, including their legacy aspirations, to design a proposal. In this situation, the client chose to prioritize philanthropy rather than leave a significant legacy to family. Understanding the client's wishes led to the introduction of a donor-advised fund, which could be invested in a socially responsible investment portfolio with a substantive favorability toward investing in companies deemed environmentally sustainable. This solution resolved three of the client's issues. First, the client was able to continue to support their favorite charities each year by recommending grants from their donor-advised fund to the missions and programs they care about most. Second, the client's pesky low-basis highly appreciated stock could be donated on an accelerated timetable to the donor-advised fund without triggering capital gains tax. Third, the investments transitioned from traditional securities to a portfolio screened for environmental, social, and governance (ESG) concerns, with an emphasis on companies leading in environmental sustainability. The result was a happy client, advisors who understood the client and produced a solution to solve discontent, and charitable dollars that continued to flow to the charities relying on this support.

This type of solution for the client can easily be derailed, and indeed this happens too many times. Common pitfalls include: one advisor that refuses to collaborate with other advisors for the client's benefit; an advisor not well-versed in charitable strategies with no interest in learning, despite study after study confirming nearly all high-net-worth clients want their advisors to include their charitable interests in planning; a cursory understanding of values-aligned investing; an advisor too focused on analyzing the client's tax situation on a tax-year basis only; and advisors failing to listen to a client's ultimate goals for their wealth.

Case Study Two: Numerous Charities Named in Will with Frequent Changes. Increasingly clients desire to achieve impact through their philanthropy. This requires some work and intentionality by the clients. Clients can choose to support any philanthropic cause, but if they want to achieve impact, they need to focus their giving. Rather than give small amounts to many organizations, it is better to give larger amounts to fewer organizations. Narrowing many charities to a select few is not easy and often is part of each client's philanthropic journey. As clients are on this journey, they may be inclined to frequently change the charities they choose to support, which often includes charities named in an estate plan. Utilizing a donor-advised fund can be a simpler and perhaps more cost-effective method to exercise this flexibility without visiting their attorney when they want to change a charity named in the estate plan—particularly if those changes occur more than once a year. This especially works

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9 See Paying Compensation | Internal Revenue Service (irs.gov); I.R.C. Section 4941 (Self-Dealing Rules).

10 I.R.C. Section 170(e)(5)(B) - Qualified appreciated securities must be traded on an established securities market where market quotations are readily available and must be long-term capital property.

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well if the client already has a donor-advised fund and is proficient in using it. The following is an example where implementation of this strategy made the most sense for the clients.

Clients were a childless couple who wanted to be intentional with their philanthropy. Over a couple years advisors facilitated values-based discussions about their priorities for their wealth transfer. Those priorities included supporting extended family, philanthropy, and leaving a legacy. For family, it was important to provide for their nieces' college education. The couple credited education as being the catalyst that took them from very modest upbringings to the C-suite of an international company. They decided they would support their nieces' education if the young adults demonstrated aptitude, interest, determination, and work ethic. If those goals were unmet, the clients planned to give those allotted funds to a couple charities, including their alma maters and a major research university in their local community. Additionally, they shared strong views on conservation and the environment as it relates to protecting animals around the world. Finally, they deemed data-driven results from the prospective charities as imperative to those charities being selected as a beneficiary of their estate.

During this planning process, it became evident that the clients were apt to change their minds about the charities listed as remainder beneficiaries in their estate plan. These clients were affected by charities that provided excellent updates on how current donations were making an impact in addition to data regarding progress made towards that charity's mission-based goals. Charities that satisfied those desires would become shining stars compared to nonprofits that simply sent a generic acknowledgement receipt. Because these clients were still searching to identify the charity or charities they thought would create the most impact with their charitable gift, they were frequently adjusting the charities named as beneficiaries in their estate plan. These clients had already established a DAF and were very familiar using it to give to the charities they supported. A suggestion was made to name their DAF as the charitable organization in their estate plan. When they wanted to make a change, they simply needed to update the DAF charity sponsor regarding the change. The attorney updated their estate plan and this small change made changing charities easier for the clients.

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Case Study 3: IRA and Testamentary Charitable Remainder Unitrust. In the last few years, there has been a significant increase in charitable remainder unitrust (CRUT) conversations with our clients. In most cases the conversations have started with the client asking about the benefits of funding a CRUT. One reason for the increased conversations is the change in Stretch IRA rules, and particularly the disallowance of the lifetime Stretch IRA. Advisors are still having the "aha" moment for charitably inclined clients when they discover a testamentary CRUT can be used to provide lifetime income for adult children. While not a perfect Stretch IRA substitute, the CRUT (as a tax-exempt trust) allows assets inside of it to grow tax-free. Because only a designated percentage is paid each year to the named beneficiaries, the distributions are stretched out over a lifetime or a fixed term of up to 20 years. After such time, the trust remainder is paid to one or more charitable beneficiaries, which allows for the benefit of a charitable deduction at the time of funding. Further, a DAF can be named as the remainder beneficiary of the CRUT thereby allowing future generations to carry on the family's philanthropy. Here is how one family utilized the testamentary CRUT with DAF strategy.

The client's estate was valued around $10,000,000 with one-half of that value in an IRA. She had two children, one who was a spendthrift. Even though her estate was under the estate tax exemption amount, the client did not want her children to inherit her entire estate in one lump sum. This client was charitably inclined. One of her advisors mentioned funding a testamentary CRUT with her IRA at her passing. Because the CRUT is a tax-exempt trust, it could receive the IRA proceeds at the death of the IRA owner without any income taxes owed. After funding, the proceeds in the CRUT would grow tax-free. Distributions from the CRUT would be made to her children at least annually and those distributions would be taxed to the children as ordinary income. The CRUT could pay out for the lifetime of her adult children or for a fixed term of up to 20 years.[11] Further, the remainder beneficiary could be her existing DAF. The client's estate would receive an income tax deduction for the present value of the remainder interest of the CRUT, although in this case it was not needed because the estate was below the Lifetime Exemption.

The client decided to fund two one-life CRUTs, one for each child. Establishing one CRUT for each child would help to ensure the CRUT's charitable estate tax deduction would satisfy the minimum deductible interest (MDI) test at funding. This MDI test requires the charitable deduction to be at least 10% of the funding amount when the CRUT is created (the duration of the trust, the trust payout percentage, the frequency of payments, and the charitable 7520 rate are all factors that contribute to the resulting charitable deduction). The lifetime payment was a comfort knowing her spendthrift child would have an income stream for life and he would not

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have the ability to invade trust principal because of the nature of a CRUT. The client chose to name her existing DAF as the CRUT remainder beneficiary. This plan allowed the client to pass on family values to her children and grandchildren through her philanthropy. She named her adult children as the successor advisors of the donor-advised fund and will eventually name grandkids. To fulfill the plan as intended, she knows it is important to intentionally communicate with the next generations the family's values, how those values relate to charitable giving, how they wish to make an impact with their giving, what differences they would like to see in the world as a result of their philanthropic support, and who they desire to help through these plans.

As an aside, when it comes to the final part of the plan regarding families, their values, and how to live them through philanthropy, this is what the authors do every day. The authors understand diving into the middle of conversations around death, money, taxes, and family values and coming out the other side with a clear philanthropic vision that is documented in a simple to share charitable roadmap, which can open the dialogue for families who are struggling to communicate or have refused to communicate around these topics. The authors find philanthropy is often the entrée and overarching sentiment that can bring all of this out in the open in a non-threatening way. It is also the least understood service advisors offer to clients until it is experienced. Once introduced, it can be transformational – for the client, their family, their confidence; and on the flip side, it cements that client's trust-based relationship with their advisory team even further. The authors highly encourage readers to engage this feature with clients' wealth management firms as most offer this type of service.

Case Study Four: Retiring Executive Leverages CLAT with a DAF. Knowing that his clients were involved in volunteering and financially supporting several nonprofit organizations in the community, this particularly charitably savvy financial advisor planted the seed with his client, who was a C-suite executive for a successful company, about charitable tax planning upon retirement. So, when the client couple announced that "now was the time to implement the strategy," the authors worked with the client's estate planning attorney, who had expertise in charitable estate planning, on weighing the pros and cons of several different Charitable Lead Trust illustrations.

When clients hear the word "charitable" in the name of a trust, they assume that this means their contribution to the trust will be eligible for a charitable income tax deduction. With a charitable lead trust, that may not be the case, and in fact they are most often thought of as a wealth transfer strategy to move assets from one generation to the next at a reduced transfer tax cost. In this situation, the retiring executive did very much desire a charitable income tax deduction in the tax year of his retirement, which was slated to be the highest income-earning year of his career. Further, the executive and his spouse did not necessarily need or want to transfer the remainder of the trust to their children. The spouse had been waiting for years for this time when she would be able to direct the distributions from the charitable lead trust to the public charities that they cared most about, and which they had been donating to for many years, but on a smaller scale.

For these reasons, the plan zeroed in on a grantor charitable lead annuity trust with a 10-year term, with the remainder returning to the grantors[12]2 and the charitable distributions being paid to a donor-advised fund quarterly. The grantor charitable lead trust allowed for the client's trust contribution to be eligible for a charitable income tax deduction.[13]3 The low 7520 charitable rate in effect at the time, that is used in the calculation of the charitable deduction, helped with this charitable strategy. This is because the lower the 7520 charitable rate, the higher the tax deduction, with all other input factors being equal. The trust was projected to increase in value due to market growth at a faster pace than the applicable mid-term rate used to calculate the charitable deduction. This made the retiring executive very happy with the arrangement. Equally happy was his wife, who could now recommend grants to their favored charities in amounts that were much more substantial, and which would make the kind of meaningful difference that they had been aiming to achieve and had planned for with their multi-disciplinary advisors for years. There were lots of smiles all around the conference table when signing the trust documents that day!

Case Study Five: Life Event Opens Doors to Next Chapter – DAF Facilitates Family Communication. In this case, the clients were a dynamo stay-at-home mother of four children and a chief finance officer of a national company. They had been giving significant amounts to charity each year. When the CFO announced his retirement, he turned his focus from his job to his family's finances and discovered how much they gave to charity each year. Their banker and financial advisor recognized early on the couple's heart for giving back and despite multiple efforts to get them to engage in a charitable planning conversation, it was difficult to capture the attention of the CFO and his spouse until his retirement. As soon as he had a retirement date, the team rallied around the couple to assist them with identifying gaps in their near-term and long-term planning and began to make recommendations, while simultaneously making referrals to CPAs and estate planning attorneys whom they could interview to find the right fit. An estate planner with a specialty in charitable planning was ultimately selected to build out their estate plan, and they decided to stay with their solo CPA.

[11] 11 I.R.C. Sections 664(d)(1)(C), 664(d)(2)(C), and 2055(a); I.R.C. Section 664(d)(1)(D).

[12] I.R.C. Section 673 (Reversionary Interest).

[13] I.R.C. Section 170(f)(2) and 170(f)(2)(B).

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During this time period, they also prioritized documenting their philanthropic roadmap so they could determine whether to fund their vision now, during their highest earning years, and whether to communicate this plan to their children who ranged in ages from nine to thirty. Over the course of a few conversations, the philanthropic specialist on the team was able to discern enough information about their backgrounds, values, impetus for prioritizing charitable giving, the areas of focus for their donations, and how their faith factored into these beliefs, and put all of this together into an intentional plan for their giving. The couple reviewed the plan and incorporated quotes that reflected their values into it, which made it more personal and meaningful to them. With this two-page roadmap in-hand, they were able to easily see how their overall wealth transfer and charitable planning decisions were interconnected. Further, they were able to prioritize which steps needed to be taken to maximize their charitable income tax planning.

The couple had already been utilizing a donor-advised fund for some of their charitable giving, but on a much smaller scale. With their roadmap in place, the advice of their collective advisors, and a hard look at their annual donations, they decided to create a new donor-advised fund. This would allow them to decrease the burden of tracking all of their multiple charitable donations by choosing to recommend grants from their donor-advised fund rather than a jumble of checks, cash, credit card, and in-kind donations, which had been typical in prior years and difficult to track due to their busy lifestyle. The driving factor in creating a new DAF was to ensure the undistributed funds were invested in a manner that was not "undoing the good work" their philanthropy was funding. The couple found this was another way in which they could carry out their philanthropic work. They found a community foundation sponsor of donor-advised funds, which would allow them to align their underlying investments with their faith-based values. Doing well with investments while doing good with the dollars earmarked for charitable causes is an increasingly important factor for the philanthropists that we work with. Soon it will likely not be optional, because the rising millennial generation is using ESG factors as a primary lens for their investment choices.

After making their significant donation to the donor-advised fund, they decided to host a family meeting during which they would communicate their philanthropic roadmap and seek feedback from their kids. Their advisors helped set the agenda and facilitate the meeting. The conversation took place with their entire family around their dining room table, including their newborn granddaughter who was born in the midst of this busy planning time and brought to life the immense importance of these values-centered wealth conversations.

Each person introduced themselves, which was an important part of the family meetings, so that the kids could see and be heard by their parent's advisors, helping the children to know who to call if they needed help. The parents, along with their philanthropic advisor, explained their thought process in documenting the philanthropy roadmap for their family, shared copies with each of the kids and then asked each to share what they thought about the plan. There were no surprises. Each child expressed their opinions, and they were genuinely pleased to play a part in the family's efforts to help those in the community who most need assistance. There was a light moment when the nine-year old asked if they would still have enough money to go to their lake home. After assurances that it was still part of the family's plan, he was fully on board with the charitable plans too.

The Future of Donor-Advised Funds

Donor-advised funds are a rapidly growing tool individuals and families are using to fulfill their philanthropy. Bearing in mind that contributions are irrevocable and the sponsoring charity has legal authority over the contributed assets, many families are choosing DAFs over family foundations for a variety of reasons including no cost to set up, no annual required distribution, no tax return to file, no net investment income tax, and anonymity in giving. Yet, despite all the flexibility donor-advised funds afford, there remain staunch critics of this philanthropic planning tool. Their few, but loud, voices espouse a public policy argument. Specifically, that the contributions to charities sponsoring donor-advised funds are not distributed to the ultimate charitable beneficiary swiftly enough and the anonymity allows people to give to unpopular causes. While any tool can be exploited, the authors are seeing individuals and families using DAFs to be more thoughtful and strategic with their philanthropy without the high cost and administrative tasks of a foundation. Foundations are still a good and powerful tool to carryout one's philanthropy, but DAFs are opening up the world of using a philanthropic vehicle for strategic philanthropy to those who may not be able to afford the upfront costs of a foundation. If the reader is an advisor who discusses DAFs and the benefits of having one, it is important to be aware of proposed changes to ensure you offer informed advice to your clients.

Conclusion

Donor-advised funds are an effective tool for individuals and families to carry out their philanthropy. Because of the reasons stated in this article, philanthropic advising without discussion of a DAF would not be complete. They offer a lot of flexibility and can be used to achieve a wide variety of philanthropic goals. Their low entry cost makes them suitable for just about anyone who gives to charity. For these reasons and many more, the authors consider DAFs the Swiss Army Knife of philanthropy— an essential tool for any advisor with philanthropic clients. ■