

Give The Gift That Keeps On Giving

It's that time of year again when our hearts naturally turn toward giving—to friends and loved ones and, for many of us, to favored charitable causes.

As you think about those organizations that work to make the world a better place, have you ever wanted to develop a pool of resources that could provide them with continuous support year after year? A Donor Advised Fund can do just that.

A Donor Advised Fund (DAF) is a charitable giving vehicle administered by a third party and established for the purpose of managing charitable donations on your behalf. DAFs are straightforward to set up and are sometimes referred to as a “poor man’s private foundation” because they are much simpler and less costly to operate. In some cases, you can establish a DAF with as little as \$5,000 to \$10,000.

You get to name your DAF and establish its purpose. For example, “The John Smith Family Charitable Fund” or “The ABC Scholarship Fund.” Then you make grant recommendations for eligible 501(c)(3) charitable organizations that you want to receive help from your fund. Note that the IRS requires that grants be for charitable purposes and neither you nor your family can benefit.

The idea behind a DAF is that grants should be sustainable from your fund’s pool of assets. For example, if you start your fund with \$10,000, you might want to initially limit grants to \$300 per year. That’d mean you’d only need to earn about 3% (plus administrative expenses) on the pool’s investments to provide that year’s grants without dipping into the fund’s principal. Additional gifts to the fund plus potential investment gains can then build a substantial giving legacy over time.

Some added benefits include:

- Establish the fund anytime. Then make your grant recommendations on a timeline that’s convenient for you. This minimizes the “year-end rush” for charitable giving.
- DAFs can be established (or added to) with cash, stocks, bonds, cash values in unneeded life insurance policies, and real estate. Note that a qualified independent appraisal may be required for some assets.
- Maximize income and estate tax advantages. Appreciated assets may be given directly to the fund and you pay no capital gains tax on them. And gifts remove assets from your taxable estate.
- Involve family and loved ones. A DAF provides the opportunity to transfer your values to younger generations through a family giving tradition. And you can appoint a successor(s) to continue the grant recommendations when you’re no longer able.

Many financial companies and community foundations will work with you on establishing a DAF. As with all such matters, be sure to consider it in the context of your broader financial planning and consult a professional advisor as appropriate.

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