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Comparing Donor-Advised Funds to Other Giving Options

Clients who want to donate to charity have a variety of options. Helping them make the right choice requires understanding the pros and cons associated with each option. The following comparisons should help you guide your client in making that choice.

DAF VS. QUALIFIED CHARITABLE DISTRIBUTION

For older clients looking to both fulfill an IRA's minimum required distribution (RMD) and make charitable contributions, a qualified charitable distribution (QCD) often seems like an obvious choice: Funds transferred directly from the IRA to a charity can fulfill the RMD, which is required starting at age 72, and the move provides tax relief by reducing adjusted gross income for that tax year.

However, QCDs come with some limitations. Most notably, the donor must create a Restricted Fund, which releases any future ability to make either investment or grant recommendations. A DAF, on the other hand, allows a donor to play an ongoing role in recommending how funds are distributed to nonprofits, a role that can be shared with and passed on to heirs, creating a family legacy of giving. It should be noted that, under the IRS's definition of "charity," a QCD may NOT be used to contribute to a DAF.

DAF VS. POOLED INCOME FUND

A Pooled Income Fund (PIF) is pretty much what the name implies: It is a fund that pools resources from a number of donors into a fund with greater impact than each could have individually. The funds are invested collectively, with income distributed to donors based on the fund's income. When the donor dies, his or her portion of the fund is distributed to the charity or charities chosen by the donor.

While this approach can appeal to donors with limited funds for charitable giving and those who seek an income-generating way to give, it does come with limitations. Most notably, perhaps, the charity receives no benefit from the gift until the donor dies. Also, the donor to a PIF must designate the beneficiary when he or she initially contributes to the PIF, regardless of how long it will be before funds are distributed to the charity. A DAF, on the other hand, can make charitable distributions on an ongoing basis, with the donor having an ongoing ability to recommend charities that receive grants.

DAF VS. CHARITABLE REMAINDER TRUST

In many ways, a Donor-Advised Fund (DAF) and a Charitable Remainder Trust (CRT) are quite similar: They both deliver long-term resources to charitable organizations, and they both also offer immediate, income-tax, estate-tax and capital-gains tax benefits.

However, DAFs and CRTs also have key differences. First of all, a CRT is created as an income-producing vehicle for the donor that will, at the end of a set term, contribute remaining assets to a charity. A DAF, on the other hand, generates ongoing income for charity, as appreciation is distributed to nonprofits as grants.

DAF VS. CHARITABLE REMAINDER TRUST

At first glance, direct giving can seem like the absolute simplest way to give: Your client writes a check and a nonprofit receives cash that it can put to work supporting a cause the client believes in. After that, though, things can get complicated.

When the donor writes a check to a nonprofit, he or she accepts the responsibility to gather, preserve and share with the IRS proper records of that gift. Furthermore, if the cash came from a major liquidation event, such as the sale of stock, the donor will face capital gains taxes and miss out on the opportunity to create a source of long-term charitable giving.

	Direct Giving	Donor-Advised Funds	Charitable Remainder Trusts	Pooled Income Funds	Qualified Charitable Distribution
Initial Expense to Donor	None	No start-up cost	Professional fees	No start-up cost	No start-up cost
Distribution Stream to Donor	None	None	Yes, taxable income	Yes, taxable income	None
Income Tax Deduction Limits	Can be up to 60% of AGI* for cash Can be up to 30% of AGI* for appreciated assets held more than 1 year	Up to 60% of AGI* for cash Up to 30% of AGI* for appreciated assets held more than 1 year	Can be up to 60% of AGI* for cash Can be up to 30% of AGI* for appreciated assets held more than 1 year	Up to 60% of AGI* for cash Up to 30% of AGI* for appreciated assets held more than 1 year	None. Distribution to charity is not deductible.
Estate Tax Benefits	Assets removed from estate	Assets removed from estate	Assets removed from taxable estate, but income added	Assets removed from taxable estate, but income added	Assets removed from estate
Investment Options	No investment options	All options offered by recommended financial professional	All options offered by chosen financial professional	Limited by the fund's chosen investments	None
Administrative, Annual Filings, Compliance Responsibility	Donor is responsible for all reporting and compliance	Nonprofit that created the DAF is responsible for all reporting and compliance. Small fees may apply.	The CRT's trustee is responsible for all reporting and compliance. Fees may apply.	Fund manages record-keeping, tax documentation, etc., for an annual fee	Donor is responsible for tax reporting and compliance
Voice in how funds are invested	None	The donor can recommend investments	The donor can recommend investments	Limited to the fund's investment strategy	None
Voice in how funds are granted to nonprofits	None	The donor can recommend nonprofits to receive grants on an ongoing basis, as well as frequency of distributions	In most CRTs, donors can change the charitable beneficiaries from time to time	Donors identify benefiting charity when the fund is established	Donors identify which charity receives the QCD
Immediate Tax Benefit	Yes	Yes	Yes - Partial	Yes - Partial	Amount donated is excluded from taxable income
Capital Gains impact	Capital gain is passed on to the charity.	Appreciation on assets passed to the DAF are not taxed as capital gains	Appreciation on assets passed to the CRT are not taxed as capital gains	Appreciation on assets held more than 1 year and passed to the fund are not taxed as capital gains	None
Opportunity to establish family legacy	None	Yes. Ability to recommend investments and grantees can be passed to heirs.	A DAF can be set up as the charitable beneficiary of the trust.	None	None
Privacy	Difficult to make gifts anonymous	Gifts can be anonymous	Gifts cannot be anonymous	Gifts cannot be anonymous	Gifts cannot be anonymous
Required Distributions	None	None.	Yes	Yes	Yes.

*Adjusted Gross Income

Note: Charitable giving options can be complex and highly individualized. This piece provides a general overview of common ways to make charitable gifts