Donor-Advised Fund Guide

Strategic Charitable Giving for Tax-Conscious Donors

What Is a Donor-Advised Fund?

A Donor-Advised Fund (DAF) is a charitable giving account that lets you contribute money, receive an immediate tax deduction, and then recommend grants to charities over time. Think of it as a charitable checking account: you deposit funds, they can be invested and grow tax-free, and you write checks to nonprofits whenever you want.

The key advantage is the separation between when you get the tax deduction (immediately upon contribution) and when the money actually goes to charities (whenever you decide). This creates powerful tax planning opportunities, especially when combined with other retirement and income strategies.

DAFs are particularly useful for people who give regularly to charity but want to maximize their tax benefit by bunching multiple years of giving into high-income years, or for those who want to donate appreciated assets tax-efficiently.

When DAFs Make Sense (And When They Don't)

Like any financial tool, DAFs work well in specific situations and poorly in others. Understanding when they provide value versus when simpler approaches work better is essential.

Good Fit for DAFs	Poor Fit for DAFs
Giving $5,000+ Annually Regular charitable giving at levels where tax deductions provide meaningful benefit	**Minimal Charitable Giving** Giving small amounts where standard deduction is better than itemizing
Bunching Opportunities Want to bunch 3-5 years of giving into one year to exceed standard deduction threshold	**Always Itemizing Anyway** Already well over standard deduction with mortgage interest, state taxes, etc.
Appreciated Assets Have highly appreciated stocks, mutual funds, or business interests to donate	**Only Cash to Give** No appreciated assets, and giving is simple cash from checking account
High-Income Spike Bonus, business sale, or one-time income creates unusually high tax year	**Stable Income** Income is consistent year to year with no unusual spikes
Under Age 70½	**Over 70½ with RMDs**

Too young for Qualified Charitable Distributions, DAF is best tax-efficient option	QCDs from IRA are often simpler and more tax-efficient than DAF
Multiple Charities Support 5-10+ organizations, want simplified record-keeping and grant management	**Single Charity** Only support one organization, direct giving is simpler
Family Involvement Want to involve children/grandchildren in philanthropic decisions	**Solo Decision-Making** Prefer to make all giving decisions alone without additional structure

Dollar Threshold Rule of Thumb:

DAFs typically make the most sense when you're giving at least $5,000-10,000 annually, or when you can bunch $15,000+ in a single year. Below these amounts, the administrative setup and ongoing fees may outweigh the tax benefits.

The Bunching Strategy: Maximizing Your Tax Benefit

For many people, this is the single most valuable use of a DAF. The bunching strategy solves a common problem: you give to charity regularly, but your charitable deductions don't exceed the standard deduction, so you get no tax benefit from your generosity.

How Bunching Works

Instead of giving the same amount every year and taking the standard deduction, you bunch multiple years of charitable giving into a single year:

1. Contribute 3-5 years worth of planned charitable giving to your DAF in one year
2. Itemize deductions that year to capture the full charitable deduction
3. Take the standard deduction in the following years
4. Grant money from your DAF to charities annually as you normally would

The charities receive the same amount on the same schedule they always did. You just changed the timing of when you put money aside and when you claimed the tax deduction.

Example: The Bunching Strategy in Action

Tom and Lisa's Situation:

- Give $10,000/year to various charities
- Married filing jointly
- Have $8,000 in state/property taxes (SALT cap)
- Standard deduction: $29,200 (2025 estimate for married filing jointly)

Without Bunching:

Each year: $8,000 SALT + $10,000 charity = $18,000 itemized deductions. This is less than the $29,200 standard deduction, so they take the standard deduction. Their $10,000 in charitable giving provides zero tax benefit.

With Bunching (Every 3 Years):

Year 1:

- Contribute $30,000 to DAF (3 years of giving)
- Itemize: $8,000 SALT + $30,000 charity = $38,000
- Tax benefit from itemizing vs. standard: $38,000 - $29,200 = $8,800 extra deduction

Years 2 and 3:

- Make no charitable contributions
- Take standard deduction of $29,200
- Grant $10,000/year from DAF to charities as usual

Tax Savings:

At a 22% marginal tax rate, the extra $8,800 in deductions saves about $1,940 in federal taxes every three years, or roughly $650/year. For Minnesota residents, add another 7-9% state tax savings (approximately $600-800 more over three years).

Important: The charities still receive $10,000 every year. Tom and Lisa simply changed when they funded the account, not when they made grants. They turned $0 in tax benefit into $2,500+ in federal and state tax savings every three years.

How to Fund a Donor-Advised Fund

DAFs accept various types of contributions, each with different tax implications and benefits.

Cash Contributions

The simplest approach. You transfer cash from your bank account to the DAF and receive a deduction for the full amount, subject to IRS limits (generally up to 60% of your adjusted gross income for cash gifts).

Best for: Bunching strategies, high-income years, or when you don't have appreciated assets to donate.

Tax benefit: Full deduction for amount contributed, subject to AGI limits.

Appreciated Securities

Donating stocks, mutual funds, or ETFs that have increased in value is often the most tax-efficient way to fund a DAF. You avoid paying capital gains tax on the appreciation and deduct the full fair market value (if held over one year).

Example: You bought stock for $10,000 that's now worth $30,000. If you sell it, you pay capital gains tax on the $20,000 gain (15-20% federal rate = $3,000-4,000 in taxes). If you donate it to a DAF, you avoid the capital gains tax and deduct $30,000.

Best for: Anyone with highly appreciated holdings in taxable accounts.

Tax benefit: Avoid capital gains tax + deduct full fair market value (subject to 30% of AGI limit for appreciated assets).

IRA Distributions (Not QCDs)

You cannot use a Qualified Charitable Distribution (QCD) to fund a DAF. However, you can take a regular distribution from your IRA, contribute it to a DAF, and then itemize the deduction.

How it works: Take a $20,000 distribution from your IRA (it's taxable income). Contribute that $20,000 to your DAF. Deduct $20,000 as a charitable contribution when you itemize. Net effect: the distribution and deduction roughly offset.

Best for: People under 70½ who want to fund charitable giving from retirement accounts, or those bunching multiple years of giving and need to itemize.

Important distinction: After age 70½, QCDs directly to charities are usually more tax-efficient than IRA distributions to a DAF because QCDs don't increase your adjusted gross income. Use QCDs for direct giving, DAFs for bunching or appreciated asset strategies.

Other Assets

Some DAF sponsors accept real estate, private business interests, or other complex assets. These require special handling and coordination with the DAF provider, but can be highly effective for large charitable gifts tied to business transitions or estate planning.

Making Grants from Your DAF

Once you've funded your DAF, you can recommend grants to qualified 501(c)(3) charities whenever you want. The process is straightforward:

- **Log into your DAF account:** Most providers have user-friendly online portals
- **Select the charity:** Search by name or add a new organization
- **Choose the amount:** Typically $50-100 minimum per grant
- **Submit your recommendation:** The DAF sponsor processes the grant (usually within a few days)
- **Track your giving:** Your account maintains a complete history of all grants

You can make grants anonymously if you prefer, set up recurring grants to the same charities, and involve family members as advisors to the account.

Important: While your grant recommendations are almost always approved, they are technically recommendations, not requirements. The DAF sponsor has final approval to ensure the grant goes to a qualified charity and complies with IRS rules.

DAF vs. Direct Giving vs. QCDs: Which to Use When

Understanding when to use each giving method is critical to maximizing your tax benefit and simplifying your charitable strategy.

Situation	Direct Giving	DAF	QCD
Age under 70½, giving small amounts	✓ Best	-	N/A
Age under 70½, bunching strategy	-	✓ Best	N/A
Age under 70½, appreciated stock	OK	✓ Best	N/A
Age 70½+, taking standard deduction	-	-	✓ Best
Age 70½+, itemizing anyway	OK	Good	✓ Best
High-income year, want immediate deduction	OK	✓ Best	Maybe

Key Takeaway: QCDs are generally the best option for people over 70½ taking standard deduction. DAFs excel for bunching strategies, donating appreciated assets, and younger donors. Direct giving works fine when you're itemizing anyway and have simple cash donations.

Choosing a DAF Provider

Several financial institutions offer DAF programs. The major players include Fidelity Charitable, Schwab Charitable, and Vanguard Charitable. Each has similar core features but differs in minimums, fees, and investment options.

Schwab Charitable

We work with Schwab Charitable for our clients' DAF needs. Here are the key details:

- **Minimum initial contribution:** $5,000
- **Minimum grant:** $50
- **Administrative fee:** 0.60% annually on balances, with discounts at higher levels
- **Investment options:** Multiple investment pools with different risk/return profiles
- **Platform:** User-friendly online portal for grant recommendations and account management

Schwab Charitable offers a good balance of low minimums, reasonable fees, and solid investment options. The online platform makes it easy to recommend grants and track your charitable giving history.

What About Fees?

All DAF providers charge administrative fees, typically 0.60-0.80% annually on your account balance. While this might seem like a cost, consider:

- The fee covers grant processing, record-keeping, tax reporting, and investment management
- These fees are paid from the DAF balance (charitable dollars), not your personal assets
- The tax savings from bunching or donating appreciated assets typically far exceeds the fees

Example: A $25,000 DAF balance pays about $150/year in fees. If the bunching strategy saves you $600-800 in taxes annually, the net benefit is still $450-650 per year.

Integration with Retirement Planning

DAFs don't exist in isolation. They work best when coordinated with your broader retirement and tax strategy.

Timing with Income Changes

The best time to fund a DAF is often when your income is unusually high:

- Year you sell a business or receive a large bonus
- Year of a large Roth conversion
- Final working year before retirement (when income is typically highest)
- Year you realize capital gains from selling appreciated property or investments

Coordination with QCDs After 70½

Once you reach 70½, you have two charitable tools: DAFs and QCDs. Here's how to use both strategically:

- **Use QCDs for regular annual giving** (up to $105,000 per year in 2024, indexed for inflation) when you're taking standard deduction
- **Use DAFs for bunching or appreciated assets** in years when you itemize or have complex giving strategies
- **Consider:** Some people fund a DAF before age 70½ while bunching makes sense, then switch to QCDs after 70½ for simplicity

Estate Planning Considerations

DAFs can be part of your legacy plan:

- Name successor advisors (typically children or grandchildren) to continue recommending grants after you're gone
- Make the DAF a beneficiary of your IRA or life insurance (charitable dollars from pre-tax assets)
- Use the DAF to teach younger generations about philanthropy and family values

Tax Bracket Management

DAF contributions can help manage your tax bracket strategically. For example, if a Roth conversion or RMD would push you into a higher bracket, a DAF contribution in the same year can offset some of that income and keep you in a lower bracket.

Common DAF Mistakes to Avoid

- **Setting up a DAF for small giving amounts** where the fees exceed the tax benefit
- **Not understanding that QCDs cannot fund DAFs** (a common source of confusion)
- **Funding a DAF but never making grants** (the money should eventually go to charities, not sit indefinitely)
- **Bunching contributions without a plan** for when to itemize vs. take standard deduction
- **Selling appreciated stock and donating cash** instead of donating the stock directly (missing capital gains tax savings)
- **Setting up a DAF without involving your advisor or CPA** (timing and coordination matter)
- **Forgetting that DAF contributions are irrevocable** (once money goes in, it must be granted to charity eventually)

When Professional Guidance Helps

DAF decisions benefit from professional input when:

- You're trying to determine whether bunching makes sense given your specific tax situation
- You have appreciated assets and want to calculate the optimal amount to donate
- You need to coordinate DAF contributions with Roth conversions, RMDs, or QCDs
- You're in a high-income year and want to maximize the tax benefit
- You're building a multi-year charitable giving strategy that integrates with your retirement plan

A financial advisor can run projections showing the tax impact of different contribution amounts and timing, help you set up the account, and coordinate with your overall financial plan.

DAF Planning Worksheet

Use this worksheet to organize your thinking about whether a DAF makes sense for your situation.

Your Giving Profile

Total annual charitable giving: $__________

Number of organizations you support: __________

Primary charities: _________________________________

Tax Situation

Do you currently itemize deductions? ☐ Yes ☐ No

If itemizing, total itemized deductions: $__________

If taking standard deduction, how close are you to the threshold?

Current deductions: $__________ vs. Standard deduction: $__________

Bunching Analysis

If you bunched 3 years of giving into one year, would you exceed the standard deduction?

3 years of giving: $__________ + other deductions: $__________ = $__________

☐ Yes, exceeds standard deduction (bunching may make sense)

Asset Considerations

Do you have appreciated securities to donate? ☐ Yes ☐ No

If yes, approximate value: $__________

Approximate cost basis: $__________

Potential capital gains tax avoided: $__________

Income Timing

Do you expect any high-income years coming up? ☐ Yes ☐ No

If yes, when and why: _________________________________

Age Considerations

Your age: _______

Are you 70½ or older? ☐ Yes ☐ No

If yes, are you using QCDs? ☐ Yes ☐ No ☐ Not sure what those are

Goals and Preferences

Would you like to involve family in charitable decisions? ☐ Yes ☐ No

Do you want simplified record-keeping? ☐ Yes ☐ No

Are you interested in growing your charitable giving over time? ☐ Yes ☐ No

Initial Assessment

Based on this worksheet, does a DAF seem like a good fit?

☐ Yes, strong fit

☐ Maybe, need more analysis

☐ No, probably not beneficial

☐ Unsure, should discuss with advisor

Notes and questions:

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Important Disclosure

This guide is provided for educational and informational purposes only. It does not constitute tax advice, legal advice, or a recommendation to establish a donor-advised fund.

Tax laws are complex and subject to change. Charitable giving strategies, including donor-advised funds, have specific IRS rules and limitations. The examples presented in this guide are hypothetical and for illustrative purposes only. Your individual circumstances may differ significantly.

Donor-advised fund contributions are irrevocable. Once you contribute to a DAF, you cannot reclaim those funds for personal use. The funds must be granted to qualified charitable organizations. While you can recommend grants, the DAF sponsor has final discretion over grant approvals.

DAF providers charge administrative fees. Investment returns are not guaranteed, and account values may fluctuate. Always review the specific terms, conditions, and fee schedules of any DAF provider before opening an account.

Before establishing a donor-advised fund or implementing any charitable giving strategy, consult with qualified tax and legal professionals who can analyze your specific situation and provide personalized guidance.

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