

# **If charitable giving is part of your estate plan, consider a donor-advised fund**

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Do you make sizable gifts to charitable causes? If you're fortunate enough to afford it, you can realize personal rewards from your generosity and may be able to claim a deduction on your tax return. But once you turn over the money or assets, you generally have no further say on how they're used. You can exercise greater control over your charitable endeavors using a donor-advised fund ("DAF"). However, under the newly enacted Tax Cuts and Jobs Act, you must itemize to benefit from the charitable contributions deduction.

## **Setting up a DAF**

As the name implies, your recommendations are integral to a DAF. First, you contribute to a fund typically managed by an independent sponsoring organization or an arm of a reputable financial institution. The minimum contribution generally is \$5,000. In exchange for handling the management of the fund, the financial institution or organization usually charges an administrative fee based on a percentage of the deposit.

Second, you make recommendations as to how the DAF should distribute the assets to your favorite charities. Though technically you no longer have control of the money that has been contributed, the fund administrator will generally follow your advice. While you're deciding which charities to support, your contribution is invested and grows tax-free. Third, your charitable choices are vetted by the organization to ensure that the recipients are qualified charitable organizations. Finally, the administrator cuts the checks and the funds are distributed to the charities.

## **DAF pros and cons**

The advantages of using a DAF include an immediate tax deduction. Your contribution to the DAF is deductible in the tax year in which the initial contribution is made. You don't have to wait until the fund makes distributions to the designated recipient. In addition, if you contribute appreciated property such as securities, there's no capital gains tax on the appreciation in value. It remains untaxed forever. Furthermore, contributions to a DAF aren't subject to estate tax or the probate process, and the amounts contributed to the fund are invested and can grow without any tax erosion.

Conversely, despite some misconceptions, contributors to DAFs have effectively no control over how the money is spent once it's disbursed to charities. Donors can't benefit personally. For instance, you can't direct that the money be used to buy tickets to a local fundraiser. Moreover, detractors have complained about high administrative fees.

If you believe a DAF is the right charitable funding vehicle for you, be sure to shop around. Fund requirements — such as minimum contributions, minimum grant amounts and investment options — vary from fund to fund, as do the fees they charge. Please contact us to help you find a fund that meets your needs.

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The Law Office of Eugene Gorrin, LLC  
17 Watchung Avenue, Suite 204  
Chatham, NJ 07928  
973.701.9300  
[egorrin@gorrinlaw.com](mailto:egorrin@gorrinlaw.com)  
[www.gorrinlaw.com](http://www.gorrinlaw.com)