

## Solutions for the Development Office

# The Elusive Donor-Advised Fund—The What and How of a DAF

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According to the IRS, a donor-advised fund (DAF) is “a separately identified fund or account that is maintained and operated by a section 501(c)(3) organization, which is called a sponsoring organization. Each account is composed of contributions made by individual donors. Once the donor makes the contribution, the organization has legal control over it. However, the donor, or the donor’s representative, retains advisory privileges with respect to the distribution of funds and the investment of assets in the account.” Although this form of giving has existed for over 70 years, it wasn’t until 2006 that the IRS formally defined DAFs.

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### What’s my prospect’s business worth?

There are only three ways to gain wealth in the US—inherit it, earn it, or marry it. Those who earn it often do so through businesses that they have created. And most of these businesses are privately-held business. For privately-held businesses, there are no public financial disclosure requirements. So, determining the value of privately-held businesses is a challenge. In fact, it is such a challenge that there is a whole industry devoted to business valuation. Researchers can gain insight into valuing a business by reading *Bankrate’s* article: *How Much Is Your Business Worth?*

- <https://goo.gl/llq1LD>

Researchers can get a ball-park estimate of a business valuation using some of the business calculators available—for free—on the Internet. Here’s a linked list of some of my favorites:

- CalcXML
  - <https://goo.gl/urfQYA>
- BizEx
  - <https://goo.gl/Aujpmw>
- Bridge Ventures
  - <https://goo.gl/gtBNOs>

### Tags & Key Words

- Donor-advised funds
- DAFs
- Philanthropy
- Prospect research
- Private foundation
- Small business valuation
- National Philanthropic Trust
- IRS
- Anonymous
- Privacy

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The first donor-advised fund was reportedly created at the New York Community Trust in around 1931. It took some 60 years after that for DAFs to become more prevalent. In 1991, Fidelity Investments, realizing DAFs could help facilitate charitable donations for its clients, created the Fidelity Charitable Gift Fund, a 501(c)3 nonprofit organization. Soon after Fidelity released its DAF, Vanguard and Charles Schwab each introduced a similar service. Today, community foundations and universities offer DAFs, as well.

In general legal terms, donors lose the right to control a gift once a gift is made to a charitable organization. But, with a DAF, the donor is explicitly permitted to advise the sponsoring organization on how the donated funds should be invested and/or disbursed to other charities, with the caveat that the advice be subject to the DAF sponsoring organization's ultimate discretion and control.

It is important to note that DAFs can provide a larger tax deduction than would gifts to private foundations by the donor, the reason being that cash gifts to non-operating private foundations are subject to lower limits on their total charitable contribution deduction. Donors to non-operating private foundations (e.g., family foundations) have a 30 percent deduction limit on their adjusted gross income (AGI); with DAFs, the deduction limit rises to 50 percent of AGI. It makes one wonder if the increased deductibility will, in the future, push more donors to create DAFs rather than private foundations, and we're already seeing that bear out. The National Philanthropic Trust reports that, from 2011 to 2012, the number of new DAFs grew seven percent while, during the same period, the number of new non-operating private foundations grew only four percent. Last week, the Chronicle of Philanthropy published its annual list of U.S. charities, ranked by the amount of private donations received the previous year. Fidelity Charitable was second on the list; Schwab Charitable and Vanguard Charitable were in the top ten.

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## Resource Links

The IRS on Donor-Advised Funds

- <https://goo.gl/5mFXOR>

*The Chronicle of Philanthropy* article on Donor-Advised Funds

- <https://goo.gl/1CzZOF>

*2014 Giving Report: A Look at Fidelity Charitable Donors and How They Give*

- <https://goo.gl/F6d6LT>

National Philanthropic Trust's *2015 Donor-Advised Fund Report*

- <https://goo.gl/545a41>

The Boston Foundation's *Donor Advised Funds: A Handbook for Fund Advisors*

- <https://goo.gl/avV024>

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DAFs do present challenges for fundraisers and prospect researchers. DAFs are opaque; the sponsoring organization is not required to publicize a list of donors. Donors can remain anonymous, making further cultivation and stewardship nearly impossible. Sponsoring organizations are required to report the total number of DAFs held, the aggregate value of assets in those DAFs, and the aggregate contributions to and grants from those DAFs during the tax year, so there is no reporting requirement to link grants to specific DAFs and their donors. According to the National Philanthropic Trust, DAFs hold more than \$45 billion in funds, but many do not accept grant proposals.

## So, what is a fundraiser to do?

- When meeting with donors, ask the donors how they typically give. Do they have an existing charitable vehicle (DAF, family foundation, etc.)?
- Remember that donor contributions to DAFs can accrue value over time. If your donors have indicated they have a DAF, or, if your organization was lucky enough to receive a gift from donors who have chosen to make their DAF gift known to your organization, then maintain consistent cultivation and stewardship with those donors. With careful cultivation and stewardship, future gifts may be larger than the original gift.
- Look at the DAF checks carefully; often the name of the DAF will be noted on the check. Typically, the name of the DAF is that of the donor or a family member, giving real clues about your donor. Remember to respect anonymity though; it's good stewardship.
- Change your donor response card and website to let donors know that your organization accepts gifts from DAFs—which, by the way, tend to be larger than gifts made by credit card or check.
- Look for innovative ways to initiate gifts from DAFs. For example, last year Fidelity created a web app called DAF Direct. DAF Direct can be used on a charity's website to assist donors in initiating a grant recommendation from their DAF directly from the charity's website. However, donors can only direct a DAF distribution recommendation through DAF Direct if they have accounts at Fidelity, Charles Schwab, or Greater Kansas City Community Foundation.

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Sincerely,



Margaret King  
President, InfoRich Group, Inc.

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## About Marge King

Marge King is founder and president of InfoRich Group, Inc. Under Marge's leadership, InfoRich Group has been providing donor insights and analysis since 2000. She frequently speaks and writes about prospect research and prospect management issues. She is an expert trainer and has spoken at a wide-variety of professional conferences, including Association of Fundraising Professionals (AFP), Association of Professional Researchers for Advancement (APRA), and the Association of Independent Information Professionals (AIIP) conferences. Marge is the Editor-in-Chief and InfoRich Group is the publisher of *Prospect Research Review*. *Prospect Research Review* is the only publication that reviews and highlights the products that prospect researchers use. She is an active member of AFP, APRA, and AIIP. She currently serves as a member of the Greater Philadelphia Chapter of AFP's board of directors.



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