

Donor-Advised Funds: The Fund That Listens to You

Gone are the days when only people with millions of dollars and names like Rockefeller, Kennedy or Gates could establish family foundations from which to spread their wealth. Now mainstream Americans with a fraction of the resources can take an active role in benefiting their communities through donor-advised funds. These funds are usually created through community foundations and, increasingly, public charities. Their purpose is to allow you a voice on how your donation will be managed and distributed, while avoiding the expense and regulation of a family foundation. The key word in a donor-advised fund, however, is advice. In order for you to enjoy all the tax benefits of a gift to a charitable organization, the gift must be “complete,” meaning you relinquish control. Thus, the donor may have the privilege of making recommendations as to how the money is invested and distributed, but the charitable organization makes the final decisions.

Advantages to Consider

Simplicity, convenience and flexibility are key benefits of a donor-advised fund. Contributors to these funds might, for example, choose from a dozen programs, ranging from affordable housing to art exhibits. This arrangement is particularly attractive for people who don't have the time to research which programs to support and who can benefit from the administrative expertise of the fund staff.

Another advantage of a donor-advised fund is that you can separate the timing of your gift from your recommendations for its use. In other words, you could make a gift this year and receive the charitable deduction on your income taxes, but reserve an opinion on how your contribution will be used until sometime in the future.

By investing in a donor-advised fund, you can watch your contributions grow over time and make helping others a long-term commitment.

Nuts and Bolts

Where to find donor-advised funds: Begin with your local community foundation and nonprofit organizations. There are also an increasing number of national donor-advised funds as well as Web-based funds to consider. All have different rules and policies about the type and location of charities they will support, and you should investigate these limitations thoroughly.

Minimum gift: Some funds allow you entry for as little as \$100, but an initial gift of \$5,000 to \$10,000 is more typical.

Annual Cost: Fund managers typically charge a 1 percent annual administration fee. Others charge an annual fee, such as \$25, plus a fee for each transaction, such as \$5.

The information contained herein is not intended as legal, tax or investment advice. For such advice, please consult an attorney, tax professional or investment professional.