



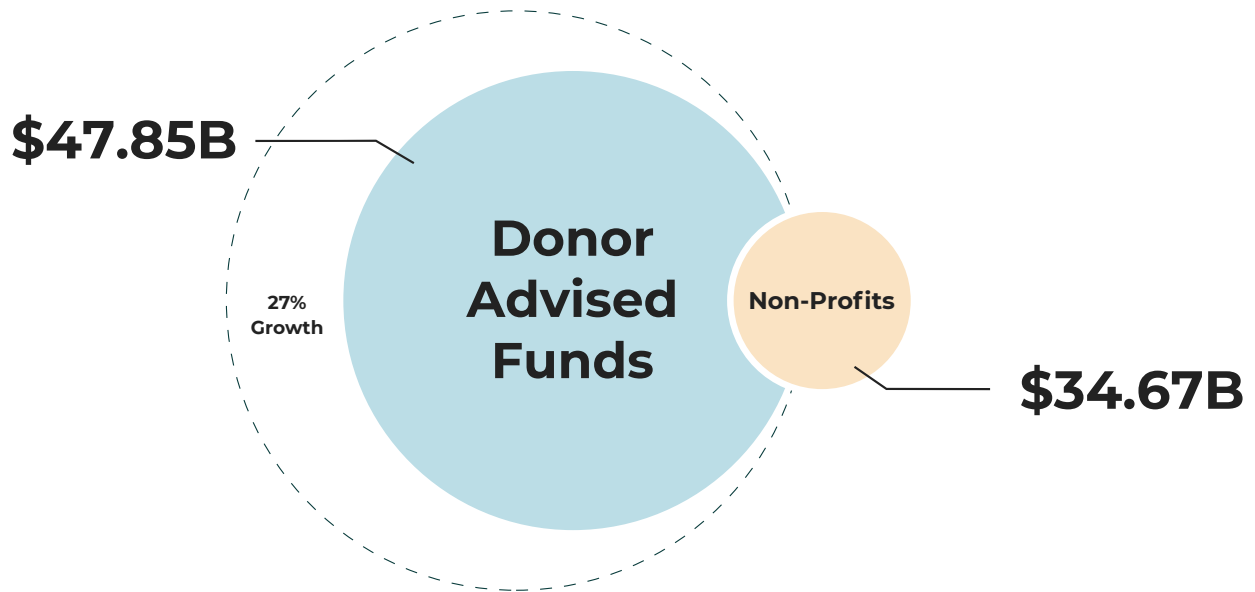
12 Questions to Ask
Before Setting Up a
Donor-Advised Fund

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Introduction

If you're curious to learn if a donor-advised fund is right for you, you're not alone. Donor-advised funds are growing in popularity among donors.



Giving USA Foundation Reports that donors contributed **\$47.85 billion** to donor-advised funds in 2020 alone, which then distributed **\$34.67 billion** to nonprofits, an eye-raising **27% growth** from 2019.

An additional report by the Giving USA Foundation and the Indiana University Lilly Family School of Philanthropy shows that most grants from donor-advised funds are used to benefit worthy causes such as **“education, religious and public-society benefit organizations** — which include United Ways and many organizations focusing on **community development and civil rights.”**

While [growth slowed in 2021](#), donor-advised funds are one of the **fastest growing and increasingly popular means of charitable giving** — and for good reason, as donor-advised funds offer donors many advantages.

Introduction

Donor-advised funds are great options for donors who:



Want to **lower their income tax liability.**



Wish to **eliminate capital gains taxes** when contributing appreciated assets.



Have an estate that is subject to taxes and are looking to **lower their tax burden.**



Are looking for a **flexible way to donate** to charity.



Want to **involve their family in philanthropy.**

These are all great benefits — but are donor-advised funds the best philanthropic option for everyone? Are there situations where something like a Flex Giving Account is more suitable for a donor?

You likely have questions, and have answers to the **12 of the most important questions to ask** before setting up a donor-advised fund.

Let's get started!

What is a Donor-Advised Fund?

“A donor-advised funds can be thought of as a charitable investment account that supports charitable organizations. It’s administered by a public charity who manages charitable gifts for individuals, families, or organizations.” Assets donated into a donor-advised fund will continue to grow over time in order to generate funds that will be paid out as grants to select charities and nonprofit organizations.

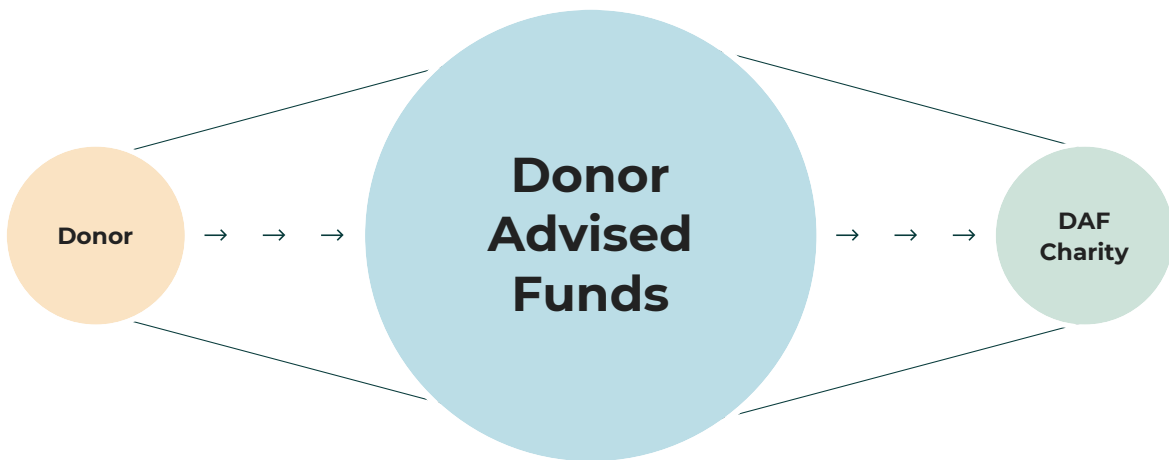
Once the assets are contributed to a donor-advised fund, they are put into a segregated fund maintained by a qualified public charity. It’s important to note that the donor no longer owns the assets once they are contributed to the donor-advised fund, but the donor does still have power to recommend:

- ☑ How the assets are invested.
- ☑ How the funds are allocated as grants to qualified nonprofit organizations and charities.



How Does a Donor-Advised Fund Work?

First, assets are deposited into an account sponsored by a public charity to grow in value, tax-free, for the donor. As the assets generate value, the interest and principal are used as funds to be granted out to chosen charities.



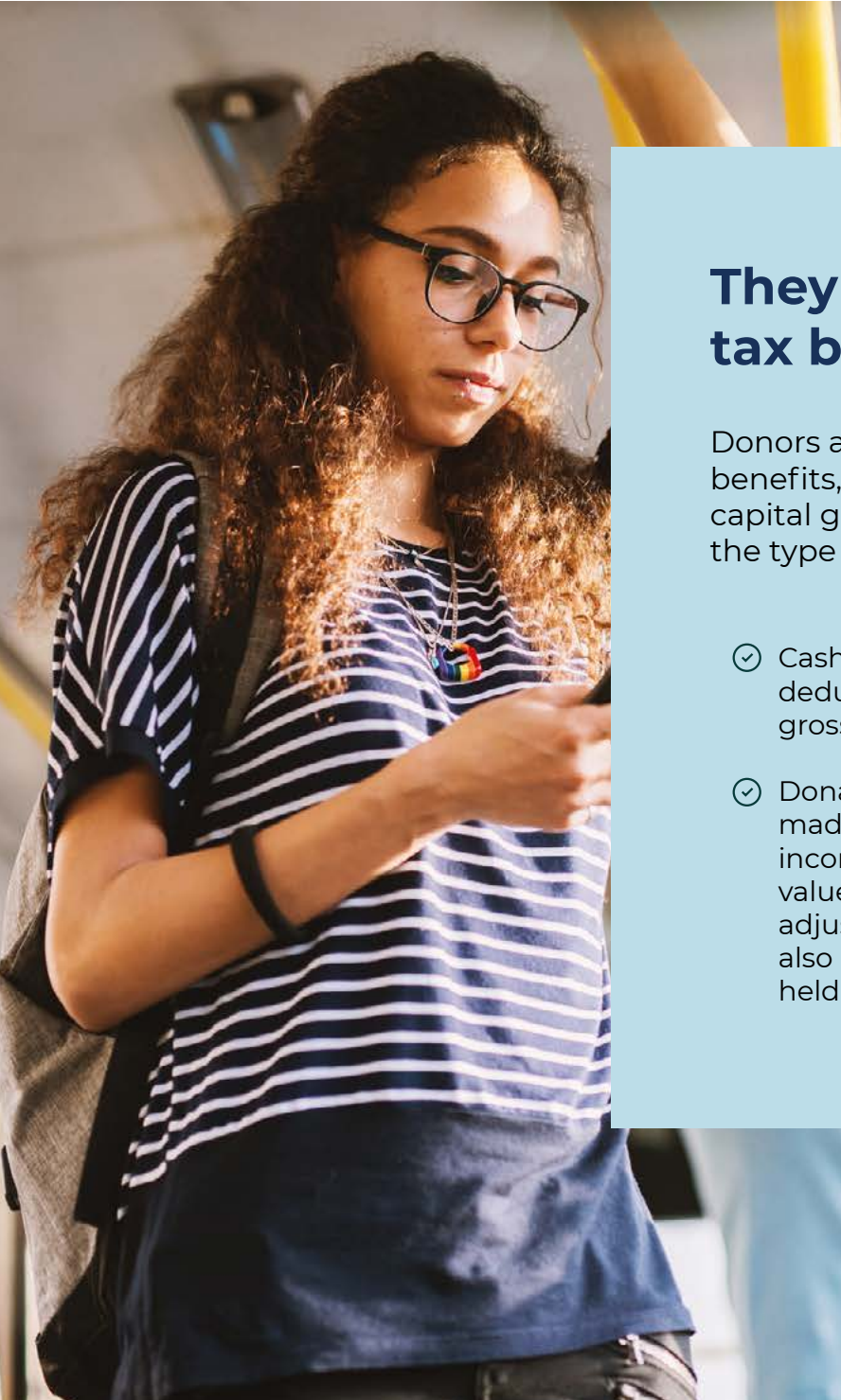
Donors can make gifts directly to the donor-advised fund account as often as they want. The donor receives immediate tax benefits for each contribution to the fund.

For each gift the donor makes to the sponsoring charity that manages the donor-advised fund, the donor gets advisory privileges. This allows them to recommend how their gift is invested as well as what grants are made which qualified charities.

The donor may choose to make grants immediately from the account or recommend that the grants be paid out at a later time. There is also the ability to set up recurring grants, which is a favorite feature of donors who use their donor-advised fund to tithe.

Donors who want to have their family involved can also grant them advisory privileges. This ensures that the donor-advised fund can continue as a philanthropic legacy.

What Are the Main Benefits of Donor-Advised Funds?



They provide immediate tax benefits

Donors are able to maximize potential tax benefits, reduce income tax liability, and avoid capital gains tax. Tax deductions differ based on the type of asset that is donated:

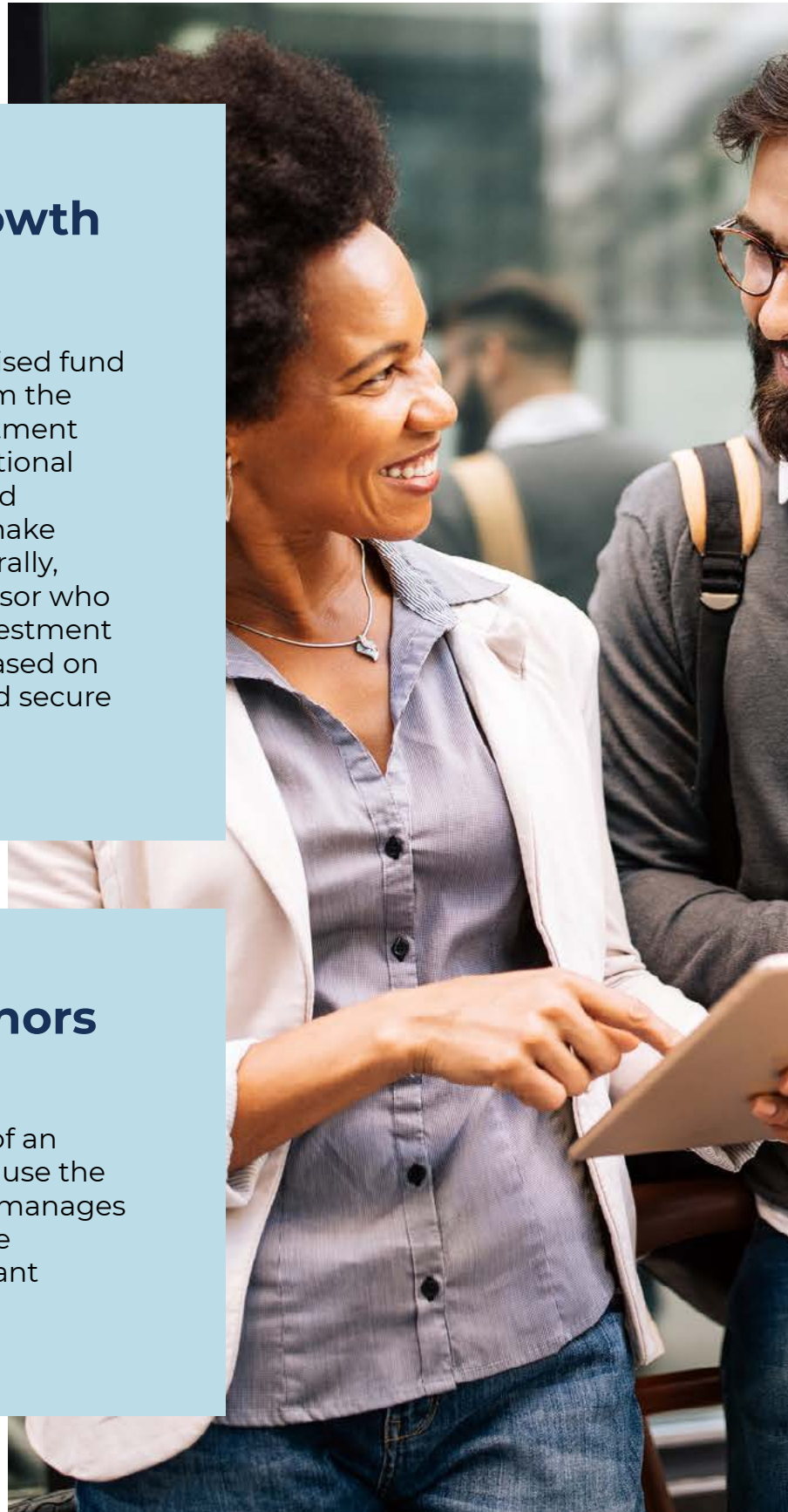
- ✓ Cash donations are eligible for an income tax deduction of up to 60% of the donor's adjusted gross income.
- ✓ Donations of long-term appreciated securities made directly to the charity are eligible for an income tax deduction of the full fair-market value of the asset, up to 30% of the donor's adjusted gross income. Capital gains taxes are also eliminated on the assets, provided they're held for more than a year.

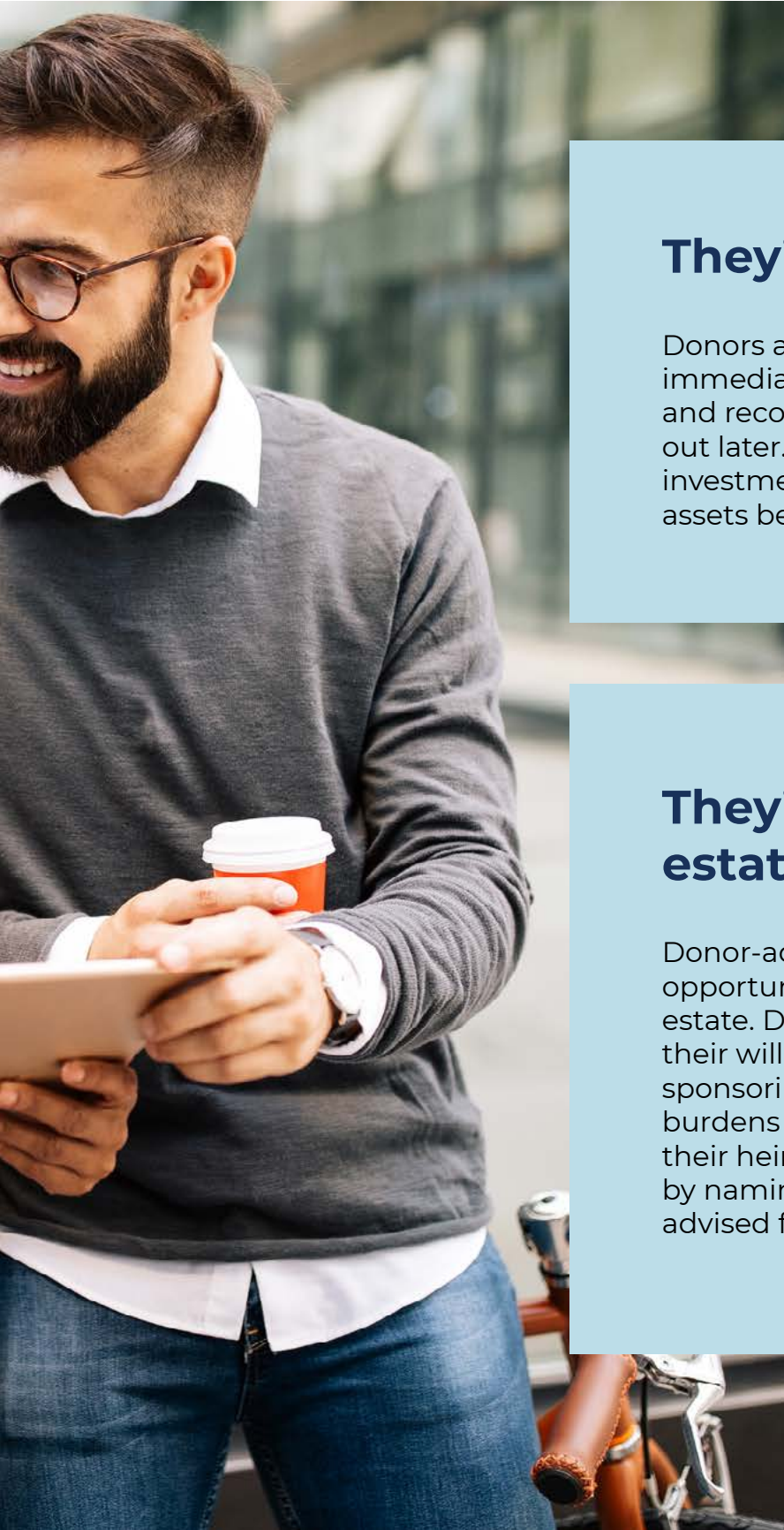
They offer tax-free growth for more giving

Assets held over time in the donor-advised fund provide tax-free growth generated from the donor's recommended choice of investment strategies. Donors may also make additional contributions to the donor-advised fund over time, building up more funds to make additional (or greater) donations. Generally, the sponsoring charity or financial advisor who manages the fund provides several investment strategies for donors to choose from based on how they want to invest their funds and secure tax-free growth.

They're simpler for donors

Compared to other planned giving vehicles, donor-advised funds are less of an administrative burden for donors. Because the sponsoring charity or financial advisor manages the account, donors are not responsible for record-keeping, tax reporting, or grant distributions.





They're flexible

Donors are not required to pay out grants immediately. Instead they can fund the account and recommend that the grants be paid out later. Donors also have a wide range of investment options they can recommend the assets be invested in.

They're a form of long-term estate planning

Donor-advised funds give donors the opportunity to secure long-term plans for an estate. Donors can choose to leave a bequest in their will for the donor-advised fund to continue sponsoring charities, which reduces estate tax burdens for their heirs. Donors can also make their heirs more active in the giving process by naming them as successors to the donor-advised fund.

What Assets Can Be Donated to a Donor-Advised Fund?

The good news is that either liquid or illiquid assets (such as real estate, buildings, antiques, and equipment) can be donated. A donor's options include:



Cash and cash equivalents



Publicly traded securities or mutual fund shares



Restricted stocks



Real estate and business equity



Cryptocurrency

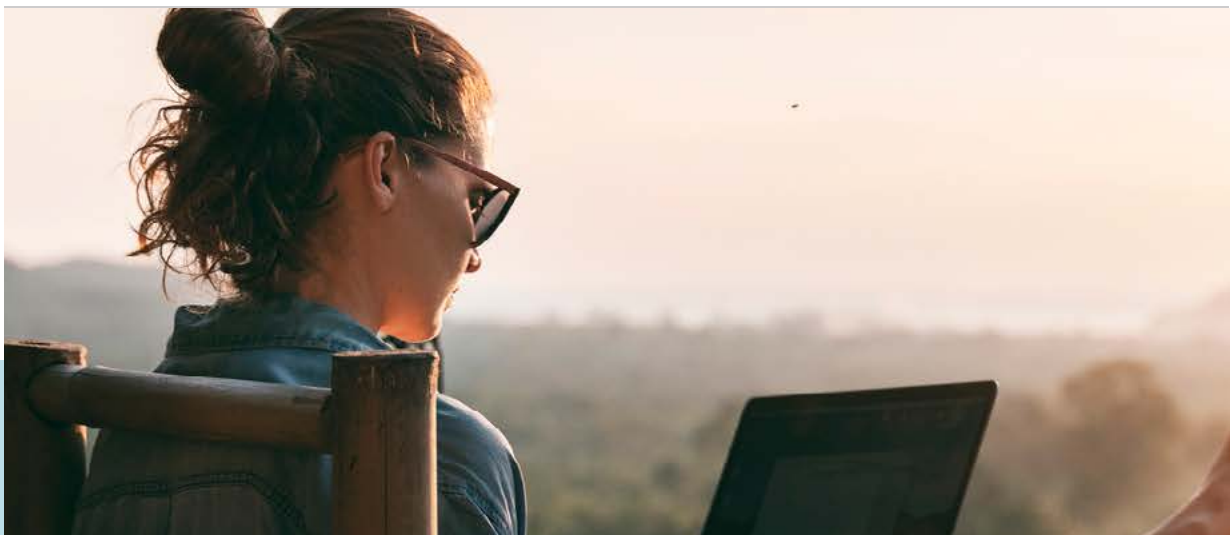


Can Crypto Be Donated to a Donor-Advised Fund?

Yes! Cryptocurrency is an accepted asset. In fact, crypto has several advantages over other assets, such as:

- ④ Enhanced security through cryptography and blockchain technologies to encrypt, secure, and verify transactions and proof of ownership.
- ④ Protected privacy thanks to no central authority, which increases user privacy protection and provides a degree of anonymity.
- ④ More efficient processing method. Unlike traditional methods, which can take days, cryptocurrency donations can process in minutes.

The types of cryptocurrency that can be donated will depend upon who administers the account. Donors who partner with Ren can choose to donate in any of the majorly traded cryptocurrencies, including Bitcoin, Ethereum, ChainLink, Litecoin, and more.



What is the Minimum Gift to Open an Account?

Minimum contribution amounts vary based on the requirements of each donor-advised fund program. There is no maximum limit for contributions – donors can contribute as much as they like. Once a donor-advised fund account is funded, contributions can be made in any amount. In order to make the most of a donor's charitable deductions, contribution strategies are often personalized for a donor's tax situation. This means they may have a strategy as to how much and when contributions are made to their fund.



What Organizations Are Eligible to Receive Grants from a Donor-Advised Fund?

Any 501(c)(3) charities or organizations, churches, or schools recognized by the IRS are eligible to receive grants from a donor-advised fund. Donors who are unsure about the eligibility of an organization can rely on a partner like Ren, who will work to verify that the charity or nonprofit is eligible to receive the funds.

Can a Donor-Advised Fund Be Used to Pay for Personal Expenses?

No, donors may not receive personal benefit (including goods and services) from grants paid by a donor-advised fund.

For example, donors cannot recommend a grant be given to an organization's gala event and then receive tickets to attend. Those tickets are a benefit and, therefore, it's against the rules for the donor to receive them. Donors also cannot recommend grants from donor-advised funds to pay for membership fees or other expenses.



Can a Donor's Family Get Involved in the Grantmaking Process?

Yes, a donor may designate family members to share in making grantee recommendations and even take over the account after the donor's passing.



Successors are not limited to family, as donors may choose to name an individual, charity, or combination as a successor. Successor advisors are granted advisory privileges on asset investment and grant-making, allowing donor-advised funds to exist in perpetuity to maintain a philanthropic legacy.

Note that if no successors are named, then upon the death of the donor, the entirety of the remaining balance of the donor-advised fund is granted out by the sponsoring charity or financial advisor.

How Do I Know if a Donor-Advised Fund is Right for Me?

The biggest question, especially given their popularity among donors, is whether donor-advised funds are the right choice of charitable account for every donor.

We find that donor-advised funds are a good fit for individuals, corporations, foundations, and trusts who want to benefit charity and:

- ☑ Are subject to paying capital gains taxes on appreciated assets.
- ☑ Whose estate is subject to taxes.
- ☑ Want to involve their family in philanthropy.
- ☑ Have accumulated wealth or highly appreciated assets that can be considered high- or ultra-high-net-worth.

Individuals who meet those criteria will find that donor-advised funds are great charitable vehicles to achieve their philanthropic goals.

Individuals who wish to start with charitable giving and aren't worried about capital gains taxes or only plan to give less than a program's minimum may be more suited toward a [Flex Giving Account](#).

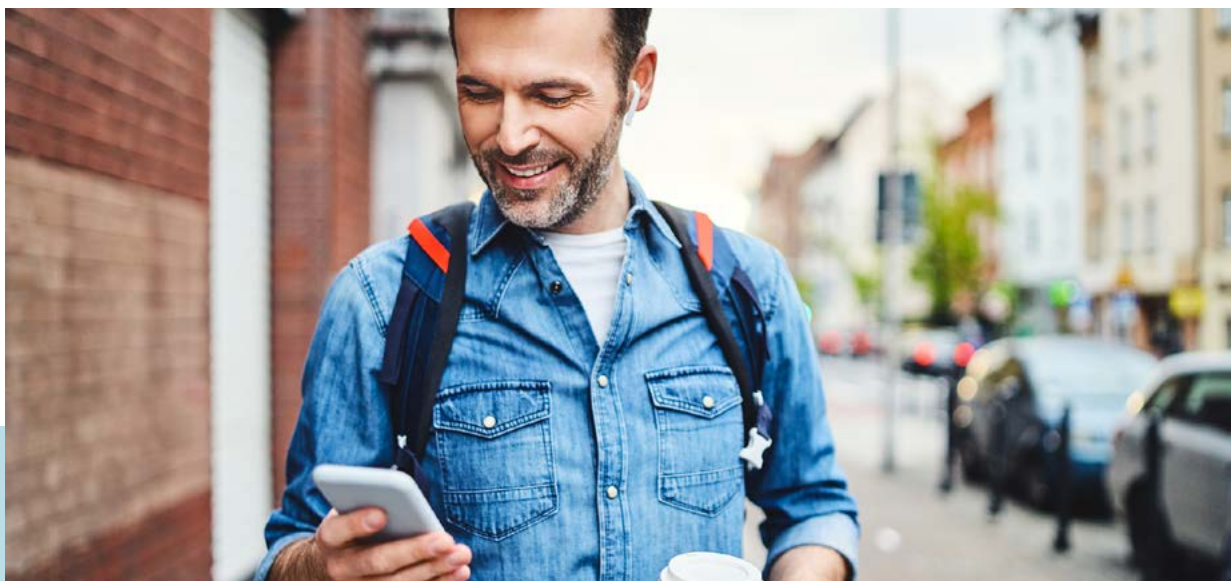


Is It Easy for Financial Advisors to Set Up Donor-Advised Funds for Clients?

Yes, it is much easier to set up than other types of funds or trusts. Donor-advised funds are designed to be an engaging experience for donors, so financial advisors are able to use their expertise to determine the best way to invest the assets.

This gives advisors the chance to form a closer relationship with clients and have straightforward conversations about estate planning, asset management, and grant distribution.

It should be noted that if a selected charity is a nonprofit organization, then the donor may have the option to nominate his or her financial advisor to manage the investment of the charitable funds. However, if the donor-advised fund is for a financial services company, then there is no choice in management, as the financial advisor is managing the investments.





You may have one last question Where Can I Find an Expert to Help Me Set Up a Donor-Advised Fund?

Talk to us! With over 35 years of experience, we are the industry's leading philanthropic solutions platform — we do all things philanthropy — so consider us your trusted consultant on charitable giving.

We bring the best of modern giving technology and integrate it with the best people to provide donors an exceptional experience. When you partner with Ren, we work with you to figure out if a donor-advised fund is your best option, or if another giving option, like a charitable remainder trust, charitable lead trust, Flex Giving Account, or private foundation, is right for you.

No matter your philanthropic means, we can provide the knowledge, support, and services to help you create a legacy for your family and your community.

Contact Us 