

Donor Advised Funds

Description, Features and Benefits

Introduction

This kit is one in a series that together make up a program (the “Program”). The Program is shared by multiple public charities and donors that have chosen to use a common umbrella charity to accept and administer gifts. This kit provides basic information about donor advised funds. An application form that donors and advisors may use is included in the kit.

Compare and contrast a donor advised fund to a private family foundation

Like a private family foundation, a donor advised fund (or DAF) receives tax deductible gifts from the donor and then makes grants to other charities over time. Both a private foundation and DAF separate the timing of one’s charitable income tax deduction from the grants ultimately made to charities. One takes the deduction in the year most advantageous to one’s tax planning without having to make final decisions about one’s grant-making.

Table #1

| Donor Advised Fund | |
|---|---|
| Features | Benefits |
| Public charity | Maximum tax deduction |
| Gift appreciated assets | Deduct fair market value. No capital gain taxes |
| Separate the timing of gift from grants | Get deduction in year when valuable to your planning. Benefit charities in future years |
| Simple to create | Low cost to setup and administer |

In contrast to establishing a private foundation a DAF is simple and convenient. First of all, the charity holding the DAF already exists. One is simply opening a fund or account within the existing structure of the charity. Second, the DAF charity is a “public charity” that does not have all the rules, regulations and limitations of a “private foundation.” For example, one may deduct up to 50% of one’s adjusted gross income with a five-year carry-over when making cash gifts to a DAF in contrast to 30% for a private foundation. If one is gifting long-

term capital gain assets, the limitations are 30% for a DAF and 20% for a private foundation.

Other contrasts of a DAF and a private foundation include the cost to set them up and administer them. With a private foundation costs may be many thousands of dollars while with a DAF the setup cost is \$100 and the cost of administration is modest. See the Schedule of Expense Deductions.

How does a donor advised fund work?

Donors often name their DAF in honor of their family; for example:

The Betty & John Doe Charitable Fund

DAFs typically are funded with cash or publicly traded stock, although real estate and privately-held stock are acceptable on a case-by-case basis. For instance, the gift of stock in a family corporation would be premised on the corporation redeeming the stock. Once funded, Betty and John give non-binding advice to the charity that holds the Fund with regard to investments. John and Betty have done business with Joe Smith, their trusted financial advisor. They want their DAF invested through Joe. Assuming Joe is not related by blood or marriage to Betty and John that would be acceptable advice to the DAF.

How about grants? Betty calls up one day and advises that \$1,000 be sent to ABC Charity. The charity holding the DAF does not *have* to follow Betty’s advice. Still, it performs its due diligence to make sure ABC is a legitimate public charity and then sends the \$1,000. To repeat, the charity holding the DAF retains ultimate decision-making control over the DAF’s investments and grant-making.

What’s the Next Step?

Complete the gift application form. Send it to the umbrella charity. The administrator will telephone the applicant to review the application and answer any questions he or she may have. A separate donor advised fund agreement will be prepared and executed at a later date.

Schedule of Expense Deductions as of January 1, 2010

Introduction: The Program is shared by multiple public charities and individual Donors through the use of a tax-exempt umbrella charity (“Umbrella Charity”).¹ This Schedule of Expense Deductions lists some of the current administrative practices of the Umbrella Charity and the deductions it makes to cover its costs. **Please note that ...**

TOTAL EXPENSES = ADMINISTRATION (Schedules ‘A’ through ‘C’) + INVESTMENT (Schedule ‘D’)

Schedule ‘A’ – ADMINISTRATION - Transaction Minimums, Setup & Flat Annual Deductions

| | 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 |
|------------------------------------|---------------|--------------|--------------------|--|------------------------|-----------------------|--------------------|-----------------------|-------------------------|
| | Outright Gift | Endowed Gift | Donor Advised Fund | Charitable Remainder Trust | Charitable Lead Trust* | Gift Annuity Contract | Pooled Income Fund | Life Estate Agreement | Charitable Living Trust |
| Kit | #1 | #2 | #3 | #4 | #5 | #6 | #7 | #8 | #9 |
| Initial Minimum | \$10,000 | \$25,000 | \$10,000 | \$150,000 | \$150,000 | | | \$100,000 | \$150,000 |
| Setup Deduct. | (1) | 100 | 100 | 750 | 750 | | | 750 | 750 |
| Annual Deduct. | | 100 | 100 | 500 | 500 | | | | 500 Schedule ‘C’ |
| Addition Minimum | | 1,000 | 1,000 | (2) | (2) | | | | 1,000 |
| Checks going out | | Annually | As needed | Quarterly | Annually | | | | As needed |
| Minimum Check | | 250 | 250 | <p>(1) To process outright gifts of cash/publicly-traded securities to charities, the deduction is 2.5% of the asset, plus \$10 per charity. If the gift is not cash or public securities, please note the additional charges of Schedule ‘C.’</p> <p>(2) Only “unitrust” versions can accept additional contributions. If the addition is made as of December 31st there is no additional expenses deduction. For other dates there is a setup deduction of \$250.</p> | | | | | |
| Minimum Balance during Life | | 5,000 | 5,000 | | | | | | |
| Minimum Balance after Death | | 10,000 | 10,000 | | | | | | |

Schedule ‘B’ – ADMINISTRATION - Asset-Based Deductions

First \$1 million: 0.57% per year; **Next \$1 - \$5 million:** 0.25%; **Next \$5 - \$15 million:** 0.15%; **Next \$15 - \$50 million:** 0.10%; **Amounts above \$50 million:** 0.05%.

Calculated on January 1st and deducted quarterly. Minimum total deduction \$1,500 per year for charitable trusts; \$100 minimum for all other account types.

Schedule ‘C’ – ADMINISTRATION - Other Expense Deductions

Out of pocket expenses for appraisals, surveys, taxes, insurance, etc. must be funded with cash from the Donor. Will deduct additional amounts from gift for transactions that require more time compared to cash/public stock gifts. For Charitable Living Trusts there is no additional charge for standard quarterly distributions, but other tasks such as paying household bills will be charged at an hourly rate.

Schedule ‘D’ – INVESTMENT EXPENSES

In most cases, Donors and Stewards may make suggestions, but cannot direct action by the Umbrella Charity concerning the broker-dealer (the “stock brokerage firm”), the registered representative (the individual “stock broker”) and/or the registered investment advisor (a professional who manages a portfolio), and the particular investments. Investment expenses are thus determined by the decisions made by the Umbrella Charity in selecting these firms, professionals and investments. None of the individuals involved with investments may be related by blood or marriage to the Donor or Steward.

¹ The initial Umbrella Charity is Charitable Foundation USA, Saint Louis, MO

Section 'D' – About DAF Investments

12 Indicate your request as to how the DAF is to be invested:

Section 'E' – About the DAF Initial Funding Assets If “rolling” assets from tax-qualified source, see Item (f).

13 Describe the DAF initial funding assets. **Check ALL OPTIONS that apply:**

(a) **Enclosed Check** payable to “CFUSA” for \$ _____ Name on Checking Account: _____

(b) **Publicly-traded securities.** Do you have certificates? Yes, No, they are held in street name at
 Broker’s name: _____ Firm: _____ Tel: _____

| Security Name | SYMBOL | Number of Shares | Owner | Est. Value | Cost Basis* | Year Purchased |
|---------------|--------|------------------|-------|------------|-------------|----------------|
| | | | | | | |
| | | | | | | |
| | | | | | | |

*** Need this information as soon as you can find it.**

(c) **Private C-Corporation**** Name of Co: _____ State: _____

Number of shares outstanding: _____ Per share value: _____ No. of Shares to DAF: _____

Is Company able to redeem shares? No, Yes

(d) **Real Estate** Location: ** _____

At what price do you believe it will sell: _____ How long will it take: _____

Your cost basis: _____ Annual costs (Insurance, Taxes, etc.): _____ Revenue: _____

Are hazardous materials on this site? Yes, No, Don’t know.

(e) **Other: **** _____

**** An appraisal from an independent qualified appraiser will be required.**

(f) Rollover from (**Check ONE**):

Private foundation name: _____ Contact: _____ at Tel. _____

Donor advised fund firm: _____ Contact: _____ at Tel. _____

Name of your individual fund: _____ ID number: _____

14 Are there debts, mortgages or liens against any asset described in Question 13? No, Yes

15 Any assets described in Question 13 jointly owned? No, Yes – Who:

16 If sold today would any asset in Question 13 produce ordinary taxable income? No, Yes

| | |
|----|---|
| 17 | Do you request Umbrella Charity to sell or retain assets in Question 13? <input type="checkbox"/> Sell, <input type="checkbox"/> Retain |
| 18 | Do you plan for DAF to receive additional lifetime contributions? <input type="checkbox"/> Maybe, <input type="checkbox"/> Yes, <input type="checkbox"/> No |
| 19 | Do you plan for DAF to receive assets upon someone's death? <input type="checkbox"/> Maybe, <input type="checkbox"/> Yes, <input type="checkbox"/> No |

Section 'F' – Other Information or Requests

Section 'G' – Disclosure Statement & Signature(s)

I understand and agree that Introducing Organization, Umbrella Charity and the charities, if any, listed in Section 'C' do not render tax or legal advice. I understand and agree that I should seek the tax and legal advice I determine is appropriate for me in my situation. I understand and agree that Umbrella Charity is not an agent for Introducing Organization or the charities, if any, listed in Section 'C,' and they are not agents for Umbrella Charity. This application is exclusively between Umbrella Charity and me, the terms of which can be modified only in writing and only by the President of Umbrella Charity making specific reference hereto.

I understand that this application does not create a DAF; that the DAF will be created by a separate agreement that will be reviewed and signed by me, and accepted by the Umbrella Charity at a later date. My purpose for creating a DAF is to make charitable gifts as I transfer assets to the DAF. I understand that a DAF is not a substitute for my will or other estate planning devices. I understand that once I transfer an asset to a DAF it becomes an **IRREVOCABLE Gift**. The asset cannot be returned; the DAF cannot be used for my benefit or for the benefit of any individual; and the DAF cannot be revoked or amended except as the DAF agreement may provide. I understand Umbrella Charity may not accept my assets or any restrictions I may have placed upon them if they do not conform to Umbrella Charity's tax-exempt purposes or standards. **I have read this application and to the best of my knowledge and belief all the information entered is true and complete.**

DONOR SIGNATURE: _____ **DATE:** _____

SPOUSE SIGNATURE: * _____ **DATE:** _____

* Spouse must sign if he/she joint owner of an asset listed in Section 'E' or if he/she is to exercise the donor's authority.

Administrator Use Only. Donor was interviewed by:

Print: _____ **Signature:** _____ **Date:** _____