

Donor Advised Funds and the New Tax Bill: A Changing Model for Non-Profit Giving

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The new tax bill brings with it many changes, including the tax consequences of charitable giving. When it passed in December, many news articles focused on encouraging Americans to make their contributions before the end of 2017, to take advantage of the ability to itemize charitable deductions. But there are things people can be doing moving forward to help ensure their charitable goals can still have tax advantages. You just need a little creative thinking to make it happen.

First, a little background information: Prior to the new tax bill, the 2017 standard deduction was \$6,350 for individuals and \$12,700 for married couples. As a result, many charitably minded taxpayers benefitted from itemizing deductions. Under the new bill, however, the standard deduction increases to \$12,000 for individuals and \$24,000 for married couples. While it will simplify the filing process for millions of Americans, it could complicate the giving strategies for many who have made a habit of deducting their charitable contributions.

One of the smartest ways to ensure your ability to keep making deductible charitable donations is through the creation of a donor-advised fund. A donor-advised fund, or DAF, is a charitable instrument established at a public charity or financial institution. It allows donors to make a charitable contribution, receive an immediate tax benefit, and then recommend grants from the fund over time. Think of a DAF as a charitable savings account: you can contribute to the fund whenever you like, and then recommend grants to your favorite charity when you are ready. Money in the fund can grow tax-free through responsible investment, creating additional revenue that you can use for charitable purposes.

Donor-advised funds are not new, but in recent years have grown tremendously in popularity. *Non-profit Quarterly* calls them the "charitable vehicle of choice for a rapidly increasing number of donors." One of the leading reasons for the popularity of DAFs is you do not need substantial wealth to open one. They offer many of the advantages of private foundations, without many of the costs or restrictions.

A recent article in the *New York Times* suggests using a DAF to ensure your favorite non-profits continue to receive their charitable donations each year. "Someone could "bunch" several years of donations into a donor-advised fund into one year, and take the tax deduction, but then have the fund pay out the gift annually in equal amounts. The charity would get the same amount each year, even in years when the donor did not itemize deductions."

While many financial institutions now offer their clients the ability to open a DAF, a better approach for those who are looking for more meaningful impact would be to establish one through their local community foundation. In Rockland this can be achieved through the Rockland Community Foundation, where a DAF can be opened for as little as \$5,000. Donors have the ability to name their fund, and can recommend donations to any recognized charitable institution. There are no annual minimum disbursement requirements, and annual management fees are only 1.25% for funds over \$25,000 (funds under \$25,000 have an annual fee of \$250). The Rockland Community Foundation is able to accept gifts of cash, checks or securities into DAFs. You can reach out to them at 845-268-9272 or email info@rocklandgives.org for more information.

Both the new tax law and the growing popularity of DAFs are requiring non-profits to consider rethinking their donor model. While the days of straight donations to non-profits are by no means gone, it is critical for them to embrace this new type of revenue stream if they are to survive and thrive.

Donor-Advised Funds in the U.S.	2014	2015	2016
Number of DAFs	240,960	266,584	284,965
Assets (\$ billion)	\$69.98	\$77.63	\$85.15
Grantmaking (\$ billion)	\$12.32	\$14.26	\$15.75

Source: National Philanthropic Trust