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Irs donor-advised funds guide sheet

DAFs dominate US charitable giving, raising concerns over transparency and impact Thirty years ago, donor-advised funds (or DAFs) were a niche giving vehicle within community foundations. Today, they are central to US charitable giving, accounting for nearly one-sixth of all individual donations annually. In 2023, nine out of the top 20 recipients of charitable gifts in the country had DAF sponsors. DAFs allow donors to contribute money to personal accounts, claiming an immediate tax deduction, while maintaining control over grant-making decisions. This has led to a surge in donations, partly due to their anonymity and flexibility. However, unlike private foundations, which are required to distribute a certain percentage of assets each year, DAFs have no payout requirement. This lack of transparency has sparked concern among nonprofit organizations, as tax-advantaged donations accumulate while urgent needs are neglected. Many DAF sponsors are affiliated with large for-profit wealth management firms, collecting fees and incentivized to hold onto assets. DAF account sizes varied significantly across sponsors in 2023. National sponsors had the largest accounts, with a median size of $390,541. Donation processor accounts were the smallest, at just $305. The overall payout rate was around 9.7 percent, which has remained relatively stable over the past four years. However, donation processors have higher payout rates, typically around 82 percent per year, while community foundation sponsors have lower rates, ranging from 8 to 9 percent. DAFs divert funds from struggling nonprofits to donors, undermining public benefit and lacking transparency. Congress can reform DAFs by increasing funds distribution, discouraging warehousing, ensuring transparency, and preventing abuses. Without meaningful change, DAFs will consume more charitable resources without accountability measures. Tax laws set strict limits on charitable donations: 60% of AGI for cash contributions and 30% for non-cash ones like stocks. Donors must plan carefully to avoid deductions being cut short in a single year, especially when it comes to valuing non-publicly traded securities which may need a qualified appraisal to determine fair market value. Unused deduction can be carried over up to five years but accurate record-keeping is crucial for this process. Tax professionals should be consulted to ensure compliance with IRS rules and avoid potential penalties or audits that often result from valuation mistakes, poor record-keeping, or misunderstandings of tax laws. Donors use Form 1040 and Schedule A to report contributions and sometimes Form 8283 when the contribution exceeds $500 in value; a qualified appraisal is required for property worth over $5,000. Donors often misreport the value of non-cash contributions, leading to IRS scrutiny and penalties. To avoid this, reliable documentation such as brokerage statements or qualified appraisals should be used. Accurate completion of Form 8283 is also crucial to ensure deductions are processed without delays or rejections. Acknowledgment letters can also cause issues if missing or incomplete. Failing to account for AGI limitations when calculating deductions can result in discrepancies. Using tax preparation software or consulting with professionals can help donors avoid these mistakes and follow IRS guidelines. Donor-advised funds (DAFs) offer a charitable vehicle that allows donors to make gifts, take immediate deductions, and recommend future grants. Unlike private foundations, DAFs have no distribution requirements and can allow investment funds to build up over time. With respect to a donor (or individual appointed or designated by such donor), having advisory privileges over distribution or investment of funds due to the donor's status as a donor is key to meeting the first prong of the definition. This can be achieved through naming the fund after a donor or attributing funds on the organization's books to specific donors. A generic name does not automatically disqualify a fund from being considered a Donor Advised Fund (DAF). The second prong involves ownership and control by a sponsoring organization, which is common among most domestic public charities. Even if an individual doesn't have advisory privileges in writing, they still qualify for this prong if they reasonably expect to have such privileges. There are exceptions to this definition, including distributions made solely to identified organizations or government entities, as well as grants provided for travel, study, or similar purposes by the donor or their advisor under certain conditions. Under this interpretation, distributions from donor-advised funds (DAFs) are subject to tax if they benefit individuals or entities that do not meet certain criteria. A taxable distribution includes payments made for non-exempt purposes, such as religion, charity, education, or sports competitions, unless the sponsoring organization exercises expenditure responsibility. However, certain organizations, including public charities and private operating foundations, are exempt from taxation. Additionally, distributions to these organizations will not be subject to tax penalties if they do not provide prohibited benefits to donors or related persons. The excess business holdings rule affects donor-advised funds (DAFs), donors, and related parties. Violations can lead to a first-tier tax of 10% of the value of excess business holdings, as well as a second-tier tax of 200% if the DAF still holds excess assets at the end of the taxable period. Excess holdings are determined based on the day with the highest value during the tax year. Exceptions include situations where the DAF owns less than 2% of voting stock and 2% of total shares, or when non-disqualified individuals control the business despite DAF and disqualified party ownership up to 35%. Excess benefit transactions involve providing economic benefits to disqualified parties beyond their contributions or services. Disqualified persons include those with substantial influence over the organization within a five-year lookback period, such as donors, donor advisors, and related parties. Penalties for excess benefit transactions can be severe: a 25% excise tax on the disqualified person receiving the benefit, and an additional 200% if the violation is not corrected; a $10,000 maximum excise tax on organizational managers who knowingly participated. To claim charitable deductions for gifts to DAFs, donors must obtain written acknowledgments from sponsoring organizations stating they have exclusive legal control over contributed assets. A study on Donor-Advised Funds (DAFs) conducted in 2011 was met with criticism from Senator Chuck Grassley, who deemed it "disappointing and non-responsive." However, due to link accessibility issues, the report is no longer available on the IRS website. For more information on prospective regulations, interested parties can refer to comments provided by the American Bar Association's Charitable Planning and Organizations Group. Benefits of utilizing DAFs for donors include: * Immediate income tax deduction * Avoidance of capital gains taxes when gifting appreciated property * Reduction of the gross estate through excluded asset deductions In comparison to establishing a private foundation, DAFs offer several advantages: * More favorable charitable deduction treatment * Exemption from self-dealing and payout rules applicable to private foundations * Simplified administrative processes handled by the sponsoring organization * Low contribution minimums and ease of establishment * Privacy options for donors * Ability to receive donations from various sources, including private foundations However, DAFs also have some drawbacks: * Limited control over distributions (grant-making) * Reduced visibility and prestige compared to family-named private foundations * Lack of flexibility in grant-making areas * No ability to hire staff or make distributions to individuals A donor-advised fund is a distinct charitable financial account offered by a public charity, where donors contribute irrevocable, tax-deductible donations that are no longer owned by them. These contributions must ultimately be used for charitable purposes and cannot be refunded. The benefits of utilizing a DAF include: * Flexibility in choosing when and where to give, independently from tax implications * Immediate tax deduction upon contribution * Tax-free growth through investments * Simple, tax-smart giving options * Ability to capture valuable tax advantages with a single gift Charityvest offers a consolidated annual receipt for all giving across 1.4 million qualified charities. People want to be more charitable but often struggle to start giving. Charityvest aims to help by providing a simple, modern platform for tax-smart, purposeful giving. The platform makes giving easy and fast, from donating stock to making grants. It features modern investments with customizable, self-rebalancing portfolios using low-cost index ETFs. This results in great value without sacrificing control. Low fees are also a key benefit, with zero-fee uninvested DAF options available. Charityvest is motivated to help users give more by providing giving goals and non-binding pledges to measure progress.

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