



## Non-Profits and DAFs

*Planned Giving Day 2019*

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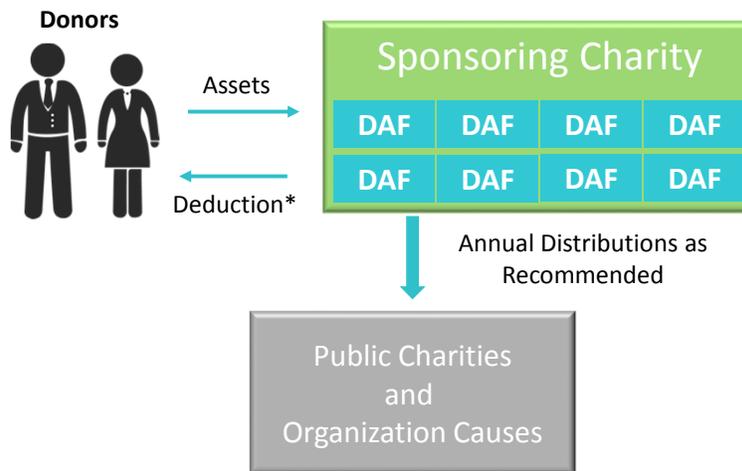
### Agenda

- Overview of DAF Basics
  - The \$110 Billion Opportunity
- DAF Trends (and Clouds) after Tax Cuts and Jobs Act (TCJA)
  - Are NPOs starting their own DAFs?
- Illiquid Assets and DAFs
- Working with your Donors and DAFs for the benefit of your charity



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# What is a Donor-Advised Fund



\*Income, Gift and/or Estate Deduction.



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# DAF Features and Benefits for Donors

- Low Entry AND Low Cost – As low as \$5,000 at many providers
- DAFs can accept the widest range of assets including illiquid holdings
- Immediate Tax Deduction to maximize giving and tax benefit
- Simplify your giving by getting on tax receipt from your DAF sponsor
- Tax Free Growth of assets in DAF
- Donors can generally support any 501(c)3 nationally or some NGOs globally
- Legacy planning and supporting charities beyond one's lifetime
- Multi-generational tool to support your family in sharing values and philanthropic goals



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# The \$110 Billion Opportunity

## Donor-Advised Fund Metric Overview (\$ in Billions except as noted)

	2016	2017	% CHANGE
Charitable Assets	\$86.45	\$110.06	27.3%
Total Contributions	\$25.09	\$29.23	16.5%
Total Grant Dollars	\$15.91	\$19.08	19.9%
Grant Payout*	20.6%	22.1%	1.5%
Total # of DAF Accounts	289,478	463,622	60.2%
Average Size of DAF** Account (\$)	\$298,628	\$237,356	-20.5%

\*Grant Payout = Grant Dollars divided by Charitable Assets at end of prior year multiplied by 100 to get a percentage.  
 \*\* Average size of a DAF Account = Total Assets Under Management divided by Total Number of DAF Accounts



Source: National Philanthropic Trust 2018 Donor-Advised Fund Report



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## DAF Trends after the passing of TCJA

- **Positive Trends**
  - Bunching Strategy
  - Collaborative Grantmaking
  - IRA rules for the RMD at 70-1/2 (*Designated Funds and Endowment Funds*)
  - Illiquid Assets (*broader asset choices in the donor 'wallet'*)
  - Grants Payouts and "Flow Rates"
  - Developing focus on workplace giving
  - Increasing interest in "corporate social responsibility" (CSR)
- **Clouds**
  - Donor Transparency (Calif proposed law change)
  - Representations and Control after giving (FCGF lawsuit)
  - Grant Payout & New Proposals (*vs private foundations*)
  - Private Fdn 5% pass through
  - Pledges & Bifurcation (IRS Notice 2017-73)



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## Why are 501(c)3s Creating DAF Programs?

- **Full charitable planning:**
  - Enable donors to work directly with your institution for ALL planned giving needs
  - Solicit more long-term funding for NPO programs and initiatives
  - Increased Stewardship opportunities and ways to contact donors
  - Become your donors trusted philanthropic advisors/consultants
- **Local access to funds:**
  - Programmatic Impact by pooling donor resources and dollars
  - Facilitate annual grants to programs and initiatives within your organization
- **Data:** Increased insight into the donor's charitable giving habits and capacity



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## Should your organization create a DAF offering?

### Options

- **Leverage the platform of another DAF sponsor without creating your own DAF**
  - For orgs without 501c3 charter
  - Agent Agreement with a Community Foundation or other provider
- **Leverage an existing third-party administrator to create a branded DAF platform**
  - When does it make sense?
  - How do you explore your provider options?
    - Investment Manager
    - Sponsoring Charity
- **Establish your own DAF**
  - What size non-profit should offer DAFs as a giving option?
  - What does it take to run a DAF program yourself?
    - Record keeping platform
    - Managed services
    - Reporting etc.



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## The case for Illiquid Asset Gifts

Assets held by HNWI Individuals

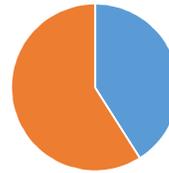


■ Cash ■ Non Cash

**Only 5% of wealth is in cash**  
 Another +/-50% is in marketable securities  
 So – **50% of wealth is in illiquid assets**

**Long term appreciated assets offer the benefits of**  
 Immediate tax deduction of market value\*  
 Avoidance of long-term capital gains tax

Assets Types Recd by Top 10 DAFs



■ Cash ■ Non Cash

**What assets qualify?**  
 Appreciated securities  
 Real Estate (commercial, residential, land etc.)  
 Business interests (LLC/LLPs, C-corps, S-corps)  
 Other: cryptocurrency



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## Why do you want to avoid accepting these gifts?

- **Risk – publicity, unplanned costs, unknown issues**
- **Legal interpretations/deductibility of gift cost basis, related use etc.**
- **Liability – in the chain of title**
  - Burdens of ownership
- **Complexity of monetization/liquidation**
  - Buyer's reps, time constraints
- **Flawed liquidation expectations**
  - No buyer "in the wings", delays in finding a buyer
  - Other delays & undisclosed restrictions
  - Extra costs (taxes, maintenance etc.)
- **SO... what is the alternative?**
  - Find an organization or partner who can assist with these gift inquiries



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## Successful Case Studies

- **Gift of a residential property**
  - \$4 million valuation
  - Cost basis low so could be high capital gains exposure
  - Interested buyer
  - Involvement of a “village of advisors”
  - Charitable tax benefits
  - Funds for distributing to charities
  
- **Gift of Private Widget Business**
  - C- Corp
  - Corporate Buy-Back
  - Treasury Shares
  - Increased value of existing shareholders



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## DAF Benefits to NPO and How to work with Donors

### **DAF donors are committed to philanthropy**

*(and probably your charity if you know of them)*

- **How do you find them?**
  - Track all gifts from DAFs and capture as much info as possible.
  - Ask DAF sponsors about anonymous gifts you receive from them.
  - Look at known planned gifts/bequests for those who might also have a DAF.
  - Consider other big, non-DAF donors – might those donors have DAFs?
  
- **Conversations with your DAF donors**
  - Thank the donor recommending the grant.
  - Steward DAF donors like PF donors; include them in your thinking for other major or planned gifts or multi-year commitments.
  - Discuss their succession for the DAF funds; become the beneficiary of the DAF.
  - Use DAF stories/case studies on your website to encourage more gifts from DAFs.
  - Become a part of your donor’s village of trusted advisors.
  - Other: “Give from your DAF” messaging on your website, pledge cards, Update your details on Charity Search Sites – Guidestar and Charity Navigator.



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## Conversations to expand charitable giving

- Work with local DAF sponsors like **Community Foundations or Federations** to forge more meaningful dialogues about grantmaking in the region.
- Your conversations with **philanthropic advisors** will continue to educate those partners on charitable giving, especially options to use appreciated assets, life income gifts and more.
- By tapping into the pool of illiquid asset gifts efficiently, DAFs **can bring more funds** to the charitable sector
  - By thinking of DAFs as your partner in bringing more assets to charity, you can help raise all boats, including access to more funds for your mission.



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## QUESTIONS?

**Daniel Greenspon, CAP®**  
Vice President, Business Development  
(317) 313-6255  
[greenspond@reninc.com](mailto:greenspond@reninc.com)

**Brad Caswell, MBA**  
Acadia Squam Group  
(609) 429-0715  
[Brad.Caswell@acadiasquam.com](mailto:Brad.Caswell@acadiasquam.com)



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