



## Guide to Smart Giving, Part 2

By Chad Davidson, Good Fellow CFO

# How to Leverage a Donor-Advised Fund (DAF) for Smart Giving

When it comes to giving to charity, many people want to make the biggest impact they can. But sometimes, figuring out how and when to give can be tricky, especially when it comes to taxes and planning for the future. That's where a Donor-Advised Fund (DAF) comes in. A DAF allows you to make charitable contributions in a more flexible and strategic way. In this article, we'll explain how a DAF works and how it can help you make the most of your giving.

## What Is a Donor-Advised Fund (DAF)?

A Donor-Advised Fund (DAF) is a special type of account that's designed specifically for charitable giving. It's a bit like a savings account, but instead of saving money for yourself, you're setting it aside to donate to the charities you care about. When you put money into a DAF, you get an immediate tax deduction, but you don't have to decide right away which charities to support. This gives you time to think about where your money will do the most good.

Here's how it works in three simple steps:

1. You contribute to the DAF. You can add cash, stocks, or other assets (like real estate) to your DAF account. Once the money is in the DAF, it belongs to the fund, but you still get to decide how it's used.
2. You recommend which charities to support. When you're ready, you can tell the organization that holds your DAF (usually a financial institution or community foundation) where to send the money. This could be to any qualified 501(c)(3) charity.
3. The DAF distributes the funds. The DAF will send the money to the charity in the form of a grant, following your recommendation.

## Why Use a DAF?

You might wonder, "Why not just donate directly to the charity?" There are a few reasons why using a DAF can be a smart choice:



Lifelong Learning Starts Now

## Guide to Smart Giving, Part 2

By Chad Davidson, Good Fellow CFO

- **Immediate tax benefits.** When you contribute to a DAF, you get a tax deduction right away, even if you decide to give the money to charity later. This can be helpful if you want to take advantage of a tax deduction this year, but you need more time to choose the right cause.
- **Flexibility in timing.** A DAF allows you to be more thoughtful about your giving. You don't have to rush to donate to a charity by the end of the year to get a tax break—you can contribute to your DAF now and take your time researching the charities you want to support.
- **Investment growth.** Many DAFs allow you to invest the money in the account, which means it can grow over time. This gives you more to donate in the future, making your charitable giving even more impactful.
- **Simplicity.** Instead of keeping track of lots of different donations and receipts, you can handle all of your charitable giving through one account. This makes it easier to manage your donations and keep track of your records for tax purposes.

### How DAFs Work with Taxes

One of the biggest advantages of using a DAF is the tax benefit. Here's how it works:

- **Tax deductions:** When you contribute to a DAF, you can deduct the full amount from your taxable income for the year. This can be especially helpful if you've had a year with higher income or a large financial event (like selling a business or receiving an inheritance) and want to lower your tax bill.
- **Bunching donations:** In some years, your charitable contributions might not be enough to exceed the standard deduction (the set amount everyone gets for deductions). But with a DAF, you can "bunch" several years' worth of donations into one year. This means you make a large contribution to your DAF in one year, claim the tax deduction, and then spread out the donations to charities over the next few years.
- **Donating appreciated assets:** If you own stocks or other investments that have gone up in value, you can donate them to a DAF instead of selling them. This allows you to avoid paying capital gains taxes on the appreciation and gives you a bigger tax deduction. Plus, the full value of the asset goes to charity, which means more money for the causes you care about.



# Guide to Smart Giving, Part 2

By Chad Davidson, Good Fellow CFO

## Choosing the Right Charities

One of the best parts of a DAF is that it gives you time to decide which charities to support. When you're ready to make a donation, you can recommend grants from your DAF to any qualified 501(c)(3) organization. You might want to give to causes like:

- Local community organizations that help people in your area.
- National charities that focus on big issues like hunger, education, or medical research.
- International organizations that provide disaster relief or help people in need around the world.

The key is that you're in control. You can take your time to research the organizations that align with your values and ensure that your donations are making a real difference.

## How to Set Up a DAF

Setting up a Donor-Advised Fund is easier than you might think. Here's a step-by-step guide to get started:

1. Choose a sponsoring organization. This is the group that will manage your DAF. Many financial institutions, like Fidelity, Schwab, and Vanguard, offer DAFs. You can also open a DAF through a community foundation if you want to support local causes.
2. Make a contribution. You can donate cash, stocks, or other assets to your DAF. Once the donation is made, you'll get a tax deduction for the full amount.
3. Recommend investments. If you want, you can recommend how the funds in your DAF should be invested. This allows your contribution to grow over time, increasing the amount you can give to charity.
4. Recommend grants to charities. When you're ready, you can recommend that grants be made to the charities of your choice. You can give all at once or spread your donations out over time.



Lifelong Learning Starts Now

## **Guide to Smart Giving, Part 2**

By Chad Davidson, Good Fellow CFO

### **Conclusion**

A Donor-Advised Fund is a powerful tool that allows you to give to charity in a flexible, tax-smart way. With a DAF, you can make a big difference while also planning your finances strategically. Whether you want to donate today or in the future, a DAF helps you manage your charitable giving in a way that benefits both you and the causes you care about.

By understanding how a DAF works, you can make sure your generosity has the biggest possible impact—both on your community and on your financial health.