

# Donor-Advised Funds, or “Philanthropic Fracking”

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## Bloomberg reports that donor-advised funds (DAF) are all the rage among the super-wealthy these days and are reshaping the landscape of U.S. philanthropy.

DAF assets mushroomed to more than \$85 billion at the end of 2016 from \$30 billion in 2010. Where in the past wealthy donors may have given money and assets to private foundations, a large amount of giving these days is going to DAFs, due to the superior tax advantages and flexibility for the donor. Funds in a DAF grow tax-free in an individual account, and donors choose how it is invested. There is no requirement to distribute at least 5 percent of the assets every year, which is a constraint on a traditional foundation.

Most donations to DAFs are in the form of highly appreciated publicly traded stock, real estate or oil and gas leases. If the donor sold them, those assets could produce huge tax bills. If they're donated to a DAF, they bring huge tax benefits and a bigger pool of charitable funds than if they'd been sold and the proceeds donated. This tax-powered alchemy has been called “philanthropic fracking,” a way to tease out more dollars from rich people's portfolios. DAFs offer greater tax advantages over private foundations. Donors who contribute privately held stock or real estate to their foundation must value it at cost basis, which is likely to be low for depreciated property or businesses started in a garage. The income-tax deduction is capped at 20 percent of adjusted gross income (AGI), which can be carried forward five years. If instead that asset is contributed to a DAF, an appraiser determines its fair market value before it is donated. That creates a bigger deduction, which can offset as much as 30 percent of AGI (and can also be carried forward five years). Since the DAF is a public charity, the donor pays no capital gains tax and neither does the DAF when it sells the asset.

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