



National
Philanthropic
Trust

Your partner in giving

Tips for Managing Your Charitable Giving

A donor-advised fund (DAF) is an easy and efficient way to give to your favorite charities. But what are the legal restrictions and tax implications of giving through your NPT DAF? This guide can help you understand when you can use your DAF to support a special fundraising event, a scholarship or other type of charitable cause.

CHARITY EVENT

For example: Gala, Luncheon, Golf Outing, Dinner, Trip, Festival



GUIDELINES

A DAF grant may not be used to pay any part of a ticket to attend a gala or charitable event if the full cost of the ticket is not tax deductible. Donors may not split a donation to a charity by paying the non-deductible part out of pocket and recommending a grant from the DAF to pay the tax-deductible part. Such a grant would enable the donor to receive benefits that would not be available without the grant. The IRS considers the two portions to be “inextricably linked.”



PERMISSIBLE

You may recommend a grant to support the charitable event generally by indicating in the grant purpose that:

- You are not attending; or
- You are attending, but you are paying the full ticket price (both tax-deductible and non-deductible portions) separately out of pocket.

In either case, your recommendation should clearly state that you waive all benefits associated with the event.



NOT PERMISSIBLE

A grant cannot pay for any part of a ticket to attend a gala or charitable event, including the tax-deductible portion of the ticket.

CHARITABLE AUCTIONS



GUIDELINES

DAFs cannot pay for items or services purchased at a charity auction.

DAFs are prohibited by the IRS from processing any grant that will result in a more than incidental benefit to the donor. Receiving an item that was paid for by the DAF constitutes a more than incidental benefit.



PERMISSIBLE

You may pay for charity auction items out of pocket and/or recommend grants to underwrite the charity auction or support the charity generally.



NOT PERMISSIBLE

A grant from the DAF cannot pay for an item that you won at a charity auction.

MEMBERSHIP BENEFITS

For example: Giving Level, Giving Circle, Giving Society, Athletic Fund

	<u>GUIDELINES</u> Charities often offer economic benefits to donors—for example, parking privileges, attendance at special events, tickets to sporting events, free or discounted membership. These types of benefits are often associated with giving levels, giving circles, giving societies and athletic funds, as well as with gifts to media, arts and environmental organizations, or gifts to support universities and/or their athletic programs. The donor must decline any benefit with a value exceeding the lesser of 2% of the grant or \$110 because it will be considered a more than incidental benefit. DAFs are prohibited by the IRS from processing any grant that will result in a more than incidental benefit to a donor or family member of the donor. Any such benefit will subject the person receiving the benefit to a penalty excise tax.
	<u>PERMISSIBLE</u> You may recommend a grant to cover the cost of membership to a charitable organization: • If the organization confirms that its membership fee is 100% tax deductible; or • You indicate in the grant purpose section that you have declined any benefits associated with the membership.
	<u>NOT PERMISSIBLE</u> A grant cannot provide you with membership benefits with a value exceeding 2% of the grant or \$110, whichever is less.

SCHOLARSHIPS

	<u>GUIDELINES</u> Donors must relinquish control over any funds they donate to NPT. If a donor recommends a grant to a scholarship fund and retains the right to select the recipient of the scholarship, this is evidence of retained donor control, which can jeopardize the donor's tax deduction. Grants to support scholarship programs may be approved as long as donors, DAF advisors and related parties do not control the selection process and family members are ineligible to receive scholarships. Donors, DAF advisors and related parties may participate in a committee that determines scholarship recipients so long as they do not comprise or have a right to appoint a majority of the votes on the committee.
	<u>PERMISSIBLE</u> You may recommend a grant for the purpose of supporting a scholarship program administered by a charity, so long as the donor does not determine the selection of recipients.
	<u>NOT PERMISSIBLE</u> Grants cannot support scholarships where you or members of your family have control (including the right to appoint a majority of the voting power of a committee) over the selection of scholarship recipients or where family members are eligible recipients.

NEW CHARITIES

	<u>GUIDELINES</u> DAFs should not be used to bolster the public support of charities that otherwise would not meet the public support test.
	<u>PERMISSIBLE</u> You may recommend a grant to a public charity that has been in existence for more than five years. If the public charity has been in existence for less than five years, NPT will complete additional due diligence on the organization, which may result in delayed processing.
	<u>NOT PERMISSIBLE</u> NPT will not approve a grant to a public charity that has been in existence for less than five years if the charity is controlled by the donor and/or members of the donor's family and makes no attempts to fundraise.

PERSONAL PLEDGES

	<u>GUIDELINES</u> DAFs can be used to satisfy a personal pledge with the following qualifications: • The DAF sponsor must make no reference to the existence of the charitable pledge when making the grant (i.e., in the grant purpose, check memo or cover letter); • No donor/advisor may receive, directly or indirectly, any benefit that is more than incidental on account of the grant (e.g., auction items, sporting tickets); and • The donor/advisor may not attempt to claim a charitable contribution deduction for the grant (even if the grantee erroneously sends the donor/advisor a gift receipt in acknowledgment of the grant).
	<u>PERMISSIBLE</u> You may recommend a grant that satisfies a personal pledge, but the DAF sponsor cannot make any reference to the existence of the pledge when it makes the grant (i.e., in the grant purpose, check memo or cover letter.)
	<u>NOT PERMISSIBLE</u> You may not make any reference to the existing charitable pledge.

PRIVATE FOUNDATIONS (OPERATING AND NON-OPERATING)

	<u>GUIDELINES</u> DAFs can make grants to private operating foundations as long as the grant will not disrupt the organization's status as a private operating foundation, and will not be used to pay or determine compensation for the donor or the donor's family members.
	<u>PERMISSIBLE</u> You may recommend grants to private operating foundations if the operating foundation certifies that: • (1) the grant will not cause the organization to cease to qualify as a private operating foundation; and • (2) the organization will not use the grant funds to pay any compensation to, or determine the compensation of, the donor or the donor's family members.
	<u>NOT PERMISSIBLE</u> DAFs cannot make grants to private <u>non</u>-operating foundations.

INTERNATIONAL CHARITIES

	<u>GUIDELINES</u> DAFs can make grants to international charities under one of two methods: expenditure responsibility or equivalency determination. International grants require additional due diligence. As a result, NPT charges additional fees assessed from your DAF account. Please contact NPT to determine the best solution for processing your international grant recommendation.
	<u>PERMISSIBLE</u> International charities are eligible DAF grantees if they meet certain requirements.
	<u>NOT PERMISSIBLE</u> You may not recommend a grant to an international charity for a time-sensitive purpose. International grants require special due diligence, and therefore cannot be expedited.