



HIGHTOWER  
Trust Company

# CASE STUDY

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### Donor Advised Funds (DAF)

**CLIENT PROFILE:** Felix Jones, a successful business owner, is considering selling his business for a substantial profit. Felix knows that he would like to invest this money and grow his net worth while he plans his next business venture.

**CHALLENGE:** Felix meets with his Hightower Advisor to discuss his investment options. He is concerned about the tax burden of receiving such a large lump sum during this tax year. He is also very philanthropic and likes to make donations to his favorite charities every year, which he plans to continue doing indefinitely. Felix would like to protect his assets while still maintaining control over them.

**SOLUTION:** After considering multiple options, Felix and his advisor determined that **A DONOR ADVISED FUND (DAF)** could be an excellent solution for Felix and would address his tax concerns as well as further his goals of contributing to his favorite charities. A Donor Advised Fund is a 501(c)(3) organization that would allow Felix to donate directly to the fund and benefit from an immediate tax deduction, while still retaining some control over his assets and their ultimate distribution.



01

**TAX DEDUCTION:** By establishing a DAF, Felix can transfer assets into the fund, effectively removing them from his estate and taking an immediate tax deduction on the contribution. Any future contributions to a DAF qualify for a tax deduction in the year they are made.

02

**CONTROL OVER ASSETS:** The owner of a DAF can remove the assets from his or her estate while still retaining an advisory role over how the assets are invested and can direct the amounts of distribution and to which charities to contribute. Felix can direct large donations all at once, or smaller donations over time, either to a single charity or a variety of organizations.

03

**FLEXIBILITY:** Felix can contribute to the DAF as frequently as he would like to and can recommend charitable grants whenever he deems it worthwhile. The assets in the DAF will be invested and growing over time. Felix can make a large contribution to a DAF this year and take the itemized deduction up front but take his time making charitable contributions.

04

**LESS BURDENSOME THAN A PRIVATE FOUNDATION:** A DAF can be set up quickly and without the fees and start-up costs that would go into a private foundation. The DAF has no required annual minimum distributions and does not need to file informational returns. Therefore, Felix can make his grants anonymous if he chooses.

**RESULTS:** A Donor Advised Fund offers Felix an investment solution that will meet all of his goals: he can remove the assets from his estate and benefit from an immediate tax deduction, while letting the assets grow in the fund over time so that he can continue to make charitable donations. He can also retain control over how donations are made, without the overly burdensome fees and record-keeping of a private foundation.

## CONCLUSION

**A Donor Advised Fund can be an effective solution for clients that are interested in philanthropic giving, while still protecting their assets and taking advantage of tax benefits. It can be set up quickly and easily, and as such provides an excellent alternative to the onerous requirements that come with a private foundation.**

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