Canaccord Genuity Wealth Management

Financial Focus

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Donor-Advised Funds

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Canadians are generous, over the last decade millions of Canadians chosen to support the work of the over 85,000 charitable organizations in Canada. Our generous nature has not changed, but how we give continues to evolve. Donor-Advised Funds (DAFs) have been in Canada since the 1950s, however recently they have surged in popularity. According to a recent report from Strategic Insight, assets in Canadian DAFs tripled between 2006 and 2016, their estimated value by the end of 2016 was nearly $4 Billion. The surge in popularity of DAFs in Canada trails that of the US, by the end of 2016 there was an estimated $78.6 Billion of assets in the US held in DAFs. So, what is a Donor-Advised Fund? And why are they so popular?

Donor-Advised Funds emerged as a less costly and easier to administer alternative to private foundations. Usually private foundations are only practical for the very wealthy. DAFs provide some of the benefits of a foundation but are accessible to a wider audience. DAFs are usually sponsored by independent charities, public foundations and financial institutions. In short, the concept is that you donate to a DAF, receive an immediate tax receipt and then at some point in the future you provide instructions to the DAF about which registered charities you would like them to send the money to.

There are several benefits to DAFs. First off, they are flexible vehicles. You can donate cash, securities, life insurance proceeds and other types of financial assets. There are some DAFs in the US that even permit donors to contribute Bitcoin to their DAF account.

A major benefit is that by separating the gifting decision and the tax receipt, a DAF allows folks to develop a plan that meets their charitable desires and minimizes their tax burden. When you add funds to a DAF you immediately receive a tax receipt. The money remains in the DAF account, it can be invested, it can grow and down the road you can decide how the funds should be allocated to registered charities.

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If in a given year you are in a high tax bracket, a contribution to a DAF provides immediate tax relief. Once the money is in the DAF account, you then have time to research and decide which causes you would like to allocate the funds. Separating the gifting and tax receipt provides an opportunity for planning.

If you are worried about the public attention your gift might create, a DAF could be the solution. When money is allocated from the DAF to a charity, the original source of funding does not have to be revealed. This is an additional benefit of a DAF, it provides anonymity.

As well a DAF provides a way to pool resources. Friends and family members can contribute to your DAF account, receive a tax receipt for their contribution, and the pooled funds can then be allocated to a registered charity.

A DAF can also provide a legacy. DAFs can be established with the goal of supporting a cause well beyond the lifetime of the individual who originally set it up.

There are many features to Donor-Advised Funds, consider the above an introduction to the topic. You should discuss all the details with your financial professional to ensure it is a fit with your overall financial plan.

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