

Donor-Advised Funds

Making charitable giving convenient and efficient

AZZAD ASSET MANAGEMENT WHITE PAPER SERIES

INTRODUCTION

A donor-advised fund can achieve many of the goals of private foundations without the legal, administrative and accounting costs. As a public charity, the program may also provide higher charitable contribution deduction limits. Your donor-advised fund also allows you to name multiple advisers and contributors so you can promote charitable giving in your family or business. Instead of giving directly to your favorite charity, you make an irrevocable contribution to your donor-advised fund account. You receive a tax deduction in the year you make your contribution and then can decide when and how much to give to your favorite charity. Meanwhile, Azzad invests and manages your donor-advised fund assets, potentially enabling them to grow and increase your giving power over time.

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THREE REASONS FOR A DONOR-ADVISED FUND

- Immediate tax deduction can be taken
- No mandatory distribution requirement
- Professional investment management

WHAT IS A DONOR-ADVISED FUND?

A donor-advised fund (DAF) offers an easy way for a donor to make significant charitable gifts over a long period of time. A DAF is similar to a private foundation but requires less money, time, legal assistance, and administration to establish and maintain. A DAF also enjoys greater tax advantages than a private foundation.

Technically, a DAF is an agreement between a donor and a charity that gives the donor the right to advise the charity on how the donor's contributions to the charity will be distributed to other charities. Contributions may be tax deductible in the year they are paid to the DAF if they are structured so that they are not considered earmarked for a particular distributee.

During life, a donor (or a donor's designee) can make ongoing, nonbinding recommendations to the DAF as to how, when, and where grants from the fund should be made. Additionally, the donor can offer advice to the DAF regarding how contributions should be invested.

The donor may suggest that, upon death, grants be made to charities named in his or her will or other legal instrument such as a revocable living trust. Or, the donor may designate a surviving family member(s) to recommend fund distributions. However, the fund is not obligated to follow any of the donor's suggestions—hence the name "donor-advised fund." As a practical matter, though, the DAF will generally follow a donor's wishes. Grants to recipients are typically identified as being made from a specific donor's account, but they can be made anonymously at the donor's request. DAFs can be named to honor the donor or a particular family name.



Invest with faith

In a narration of the Prophet Muhammad, his companion, Abu Huraira, stated that the Prophet Muhammad (peace be upon him) said:

“ *When a human being dies, his work comes to an end, except for three things: ongoing charity, (imparted) knowledge benefited from, or a pious child who prays for him.* **”** (Sahih Muslim)

DONOR-ADVISED FUNDS VS. FOUNDATIONS

Both private foundations and DAFs allow a person to take tax deductions now and decide later to whom to give.

A DAF usually receives contributions from many unrelated donors, while a private foundation is typically funded by one source (an individual, family, or corporation). While donors to a DAF may only offer advice regarding distributions, private foundations offer the donor exclusive control and direction over distributions and investments, an attractive feature to some philanthropists.

However, various legal restrictions imposed on private foundations are not imposed on DAFs, and the federal income tax treatment of a donation to a private foundation is less favorable than that afforded to a DAF. Because gifts to a DAF are considered gifts to a "public charity," they may allow a greater income tax deduction than gifts to a private foundation. Furthermore, private foundations are required to distribute a minimum of 5 percent of their assets each year. DAFs have no such minimum distribution requirement (though some DAFs follow the 5 percent rule voluntarily), and DAF donors may be allowed to let their accounts build up tax free for many years and be distributed only upon a specified date or upon the occurrence of a specified event.

TAX ADVANTAGES

A donor can generally take an immediate income tax deduction for charitable contributions of money or property to--or for the use of--a DAF if the donor itemizes deductions on his or her federal income tax return. The amount of the deduction depends on several factors, including the amount of the contribution, the type of property donated, and the donor's adjusted gross income (AGI). Generally, deductions are limited to 50 percent of the donor's AGI. If the donor makes a gift of long-term capital gain property (such as appreciated stock that has been held for longer than one year), the deduction is limited to 30 percent of the donor's AGI. The fair market value of the property on the date of the donation is used to determine the amount of the charitable deduction. Any amount that cannot be deducted in the current year can be carried over and deducted for up to five succeeding years.

GETTING STARTED

It is easy to set up a DAF account. The donor first signs a letter of understanding with the administering organization, establishes an account, names the account, and recommends an investment strategy. Then, the donor makes required minimum gifts of assets, which may include cash, real estate, stocks, mutual funds, closely held securities, and, in some instances, private and restricted securities, depending on the DAF. The required minimum donations vary from organization to organization, but are usually less than those required by private foundations. Contact your Azzad advisor today to learn more.

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ABOUT AZZAD ASSET MANAGEMENT

Since 1997, the mission of Azzad Asset Management, advisor to the Azzad Mutual Funds and sponsor of the Ethical Wrap Program, has been to provide investment performance without compromising their values.

Azzad is proud to serve as investment advisor to the Azzad Wise Capital Fund, the first Halal, socially responsible fixed-income fund investing in:

- Sukuk
- Islamic Bank Deposits
- Ethical Dividend-Paying Stocks

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- To add to an existing 401(k) plan or set up a retirement plan for yourself or for a business, call **888.86.AZZAD**.
- If you are a financial professional and would like to obtain a selling agreement with the Azzad Funds, please call **888.86.AZZAD**.



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