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Donor-Advised Funds: A Strategic Tool for Smart Giving in 2025

Changes are coming to the charitable giving landscape. New laws may soon mean smaller deduction limits and stricter rules. However, if you're asking how you can have more money for charitable giving, or how you can lower your tax bill, a donor-advised fund (DAF) may be worth a look.

As we move into the last quarter of 2025, the DAF has emerged as a key tool in this shifting environment. Blending tax efficiency with control over what you give and to whom, the DAF is growing in popularity as rules over charitable giving get more complex.

How DAFs Work: Contribute Now. Decide Later.

With DAFs, you contribute cash, appreciated stock, private business interests, real estate, or other securities to the fund, unlocking an immediate charitable deduction (within annual IRS limits).

Your contribution is invested tax-free, allowing your fund more growth. Later, you recommend grants to your preferred qualified nonprofits who manage the compliance and administration of the distribution. The idea is that, through DAFs, you can spend less time on the paperwork of giving and more on the strategy behind your philanthropic goals.

DAFs: The Benefits + What You Need to Know

DAFs offer you the opportunity to unlock a deduction in a high-income year along with the flexibility to grant the funds over time. While they can help you save on capital gains taxes on appreciated investments, correct your target allocations, and simplify your giving strategy by supporting several charities from one consolidated account, there are some things to keep in mind.

While cash gifts are deductible up to 60% of your Adjusted Gross Income (AGI), appreciated assets are only deductible up to 30%, based on fair market value. You can also consider "bunching," where you combine several years' of gifts into a single tax year to exceed the standard deduction and maximize the benefits of itemizing your deductions.

In a two-year bunching strategy, for example, which can be implemented with a DAF, you would itemize deductions on your 2025 tax return and then take the standard deduction for 2026, potentially producing a larger deduction over two years than what would have been possible by claiming standard deductions for both years.

DAFs: Why Now?

Changes are coming to tax law in January. Among them, a new 0.5% AGI floor will be applied to charitable donations, meaning that only contributions that exceed this threshold will qualify for deduction. This will reduce or eliminate deductions for gifts under this level. Also, a lower deduction cap will be implemented for high earners, which will drop the top charitable deduction rate from 37% to 35%.

For donors with appreciated assets, substantial income this year, or wanting to front-load giving, acting in 2025 could result in more favorable tax treatment.

DAF Trends and Developments: What to Watch

The "One Big Beautiful Bill" (OBBB): Signed into law on July 4, the OBBB extends some provisions from President Trump's Tax Cuts and Jobs Act of 2017, but it also introduces new rules for charitable giving. Beyond the AGI floor and the lower top cap for high-income earners mentioned above, the OBBB also implements a permanent universal charitable deduction of $1,000 for individuals, $2,000 for couples, even without itemizing (DAF gifts excluded).

The OBBB also brought higher estate tax exemptions of $15M per individual, and $30M per couple, and a higher SALT (State and Local Tax) deduction cap, starting at $40K in 2025 and rising until 2029. The expanded SALT deduction is subject to modified adjusted gross income phaseouts, but will likely lead to a greater number of itemizers.

The bottom line is that 2025 may be more advantageous for charitable giving before deduction limits tighten.

Proposed IRS Regulations: The IRS is considering changes to how DAFs are defined, potentially adding field-of-interest and memorial funds to their scope. The IRS is also proposing linking deductibility to when the sponsor relinquishes advisory control (not just the contribution date), restricting the ability to pay investment advisor fees from the assets of the DAF, and imposing penalties when post-fund redirections violate donor intent.

These proposed regulations could narrow the flexibility that DAFs enjoy today, while increasing oversight over this tax strategy.

Other Points to Consider: In volatile markets, like ours now, DAFs provide an opportunity to connect philanthropically minded individuals with the charities that need them most. DAFs offer investors the ability to commit funds during strong markets and distribute them during downturns, helping nonprofits with flexible, unrestricted grants in times of need.

Unlike private foundations, DAFs do not have payout requirements and come with limited public reporting. A 2025 National Survey of Donor Advised Fund Donors, conducted by the DAF Research Collaborative, found that 96% of DAF users are millionaires, attracted by their tax benefits, privacy, and convenience. However, the rise of no-minimum, no-fee DAFs like GoFundMe's "Giving Funds" are drawing the attention of everyday donors to this tax strategy vehicle, offering entry points as low as $5.

What to Do Next

Before rules change on January 1, consider front-loading your DAF in 2025 to capture full deductions and pursuing bunching tax strategies to exceed standard deductions and maximize tax efficiencies.

Also, if you're over 70½ years of age, explore Qualified Charitable Distributions (QCDs), where you can give up to $108,000/year directly from your IRA to charity without increasing taxable income. This is not eligible for DAFs.

But mostly, stay up to date on changes to tax rules that may affect deduction timing or DAF structures and remain flexible as markets, laws, and needs in our communities change. Well-managed DAFs adapt to changes in their environments.

Bottom Line

Donor-advised funds can be an integral part of an overall tax strategy that allows you to pursue your philanthropic vision and support the causes that mean the most to you. With favorable rules still here until the end of the year, now may be the best time to act before deduction limits narrow and regulatory changes arrive.

As always, LaFleur & Godfrey remains ready to help you evaluate timing, asset choices, and the best approach for your goals. If you have questions about DAFs or other investment strategies, reach out and we will be happy to answer them.

Inside the Office

LaFleur & Godfrey team bocce outing at SILVA Grand Rapids.

This month we celebrated a major milestone! THANK YOU to our clients for entrusting us with $1 billion in client Assets Under Management. We are truly humbled and grateful for your trust and support as we continue to strive toward helping our clients realize their financial dreams.

We have a passion for what we do - if you know someone who may benefit from talking to us, we would welcome an introduction.