



3 Creative DAF Strategies For The 2026 Tax Landscape

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Donor advised funds (DAFs) have been around for nearly 100 years, but due to the considerable growth in the stock market, they are increasingly becoming an extremely useful tool for financial advisors and their clients.

Some of the "Magnificent 7" names that have gone gangbusters over the last few years have left clients with either over-concentrated positions or the choice to trim back and pay huge amounts in capital gains taxes. Fortunately, contributing a portion of this long-term appreciated stock to a DAF not only reduces the risk of having too much in one stock (without capital gains taxes) but also provides the client with a tax deduction of the current value.

In cases of extreme overweight, a strategy of simultaneously selling stock while also donating stock can be used in tandem to provide a tax-neutral result. We've had strong markets now for several years, and many clients "super funded" their DAFs at the end of 2025 to take advantage of the tax benefit (some of which diminished in 2026 with the introduction of the One Big Beautiful Bill Act—specifically the 0.5% floor on charitable deductions and 35% maximum federal deduction).

Maybe their annual giving is such that they don't need so much in their DAF. We had this conversation with a client recently and ultimately decided to still fund the DAF (along with selling some stock as well). Since they don't need to increase the size of their DAF at this point, we established new DAFs for their teenage children and transferred some money from the parents' DAF to each of the kids' DAFs. This is a great way to get that next generation to begin thinking about philanthropy!

As financial advisors, we can help clients with all aspects of their financial lives—not just regarding stocks and bonds. What many people do not know is that you can also donate an interest in a closely held business to a DAF.

In this respect, one client owned a rental property through an LLC that they were going to be selling for about \$1 million. Nearly the entire amount was capital gain, as the property was purchased by their grandparents in the 1950s and gifted down through the generations, thus having a carryover cost basis rather than a step-up. The client was interested in offsetting this tax somewhat and also super funded their DAF with roughly \$100,000. The answer: they assigned a 10% interest in the LLC to the DAF provider. Upon the sale, \$100k went to their DAF (a full tax deduction against ordinary income) and the capital gain was also reduced by \$100k. In the end this was a win, win!

Another client had sold a 50% stake in their (up until then) employee-owned business to a private equity firm. They received a large infusion of cash for this stake, but it was also more or less 100% long-term capital gain, which left a hefty tax bill looming. The idea of putting millions of dollars into a DAF and their children not ending up with anything (other than the ability to gift to charities) at the end of the day was not ideal.

In conjunction with their trusts & estates attorneys and CPAs, a solution was had whereby a Charitable Lead Annuity Trust (CLAT) was created and funded. The term of the trust was set to twenty years, with a fixed dollar amount (based on a prevailing interest rate at the time) to be paid to a charity each year. Ideally, the CLAT is invested in a way that earns at least as much as the mandatory payout. At the end of the twenty-year term, what is left in the CLAT gets transferred to another trust, outside the grantor's estate, for the benefit of their children.

The trick here was that the charity named as the payout recipient is permitted to be a DAF! So, in essence, this client is making the annual payment to their own DAF—which they have access to for their own philanthropic endeavors—and at the end of the term, their heirs are still likely walk away with a nice sum, all the while getting the significant upfront tax deduction they needed in the year the huge capital gain was incurred. Again, win, win!

These are just a few examples of how working with DAFs can be helpful. These tools have been around for a long time, but as financial advisors, we can work with our clients and their strategic partners to brainstorm solutions that are effective and, in many cases, super simple to implement.

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