Donor-Advised Funds

What exactly are donor-advised funds?

Donor-advised funds are creating quite a buzz in the charitable sector. But before we talk about trends and stats, let's build a solid foundation for understanding donor-advised funds.

At their core, DAFs are giving vehicles for cash and many kinds of non-cash assets. Individuals, families or even groups can create and/or contribute to a DAF account. Donors then advise their DAF provider (or charitable sponsor) on how the assets will be invested via grants to nonprofits. Donors can typically indicate if the gift is to be unrestricted or designated to a specific cause or program.

How do donor advised funds work?

Here is the typical five-step process that DAF donors follow, from setting up a fund to making a grant:

1. **Create a donor-advised fund.** To set up a donor advised fund, donors need to pick a charitable sponsor (or sponsoring organization). Each sponsor may have unique minimum deposit requirements, associated fees, restrictions on beneficiary types, and other rules or guidelines, so donors typically choose with care.

2. **Make a tax deductible DAF donation.** Once a donor's fund is open, they will need to make a contribution in the form of cash or a non-cash asset. The tax benefits are one of the biggest advantages of using donor advised funds. As such, DAF donors receive an immediate tax deduction for gifts made to their donor-advised funds.

3. **Name account, beneficiaries, and successors.** To complete the initial setup, a DAF needs a name and at least one beneficiary and successor. A beneficiary is a

charity that will eventually receive funds from the account, while a successor is anyone who will take over the account if the owner passes away.

4. **Grow donations tax-free.** Assets deposited into DAFx can be invested for growth, with no restrictions on how long these assets can remain in the account. That means donors have the potential to see their contributions increase in value over time. Over time, grants from DAFs can far exceed the original value of the donated assets.

5. **Support nonprofits via DAF grant recommendations.** Once assets are donated to a donor-advised fund, they can be directed to qualifying charitable organizations via grants or grant recommendations. Grants can be made on a rolling basis, or else a beneficiary can be named that will receive assets in a fund once the owner passes away.

What are the pros of DAFs?

Today, donor-advised funds play an increasingly important role for donors in managing their investments and philanthropic legacies.

Wondering how donors benefit from DAFs? Here are a few of the ways:

Maximizing tax benefits: Donors can make immediate tax deductions when contributing to a DAF and can grow contributions over time tax-free.

Flexible funding options: Donors decide when, what, and where to give, as DAFs typically require no annual distributions and offer options for anonymous granting.

Wide range of assets supported: Donors can contribute cash, stocks, crypto and more.

Charitable legacy: DAFs are a relatively easy way to establish a fund that can be passed down to future generations that can carry on a family's philanthropic legacy.

Donors aren't the only ones getting to have all the fun. Donor-advised funds can greatly benefit nonprofits, too. Here's how:

Major donors: With a DAF fundraising strategy, nonprofits can tap into this $234B DAF market.

Larger gifts: Due to the potential tax benefits, DAFs provide an opportunity for nonprofits to receive higher donations. (The average grant size from a DAF is roughly $4,000, significantly higher than the average online cash donation of $204.)

Lower fees: Grants from a DAF don't include admin fees or operational overhead costs that often come with other fundraising revenue streams, such as private foundation grants.

Are there any potential downsides of DAFs?

It's all a matter of perspective. For some donors, the fees and extra work required to manage a DAF may not be worth the effort. And because funds can be left indefinitely in a DAF, some fundraising experts believe that these funds, on the whole, negatively impact charities by delaying the act of donating.

Limited transparency: Nonprofits do not always have the ability to see the donor's information when receiving a DAF grant.

Donated funds are irrevocable: Donors are not able to get assets back for personal use once deposited into a DAF.

Donor fees and minimums: Depending on the sponsoring organization, a donor may be responsible for annual fees or maintaining a certain minimum balance in their DAF.