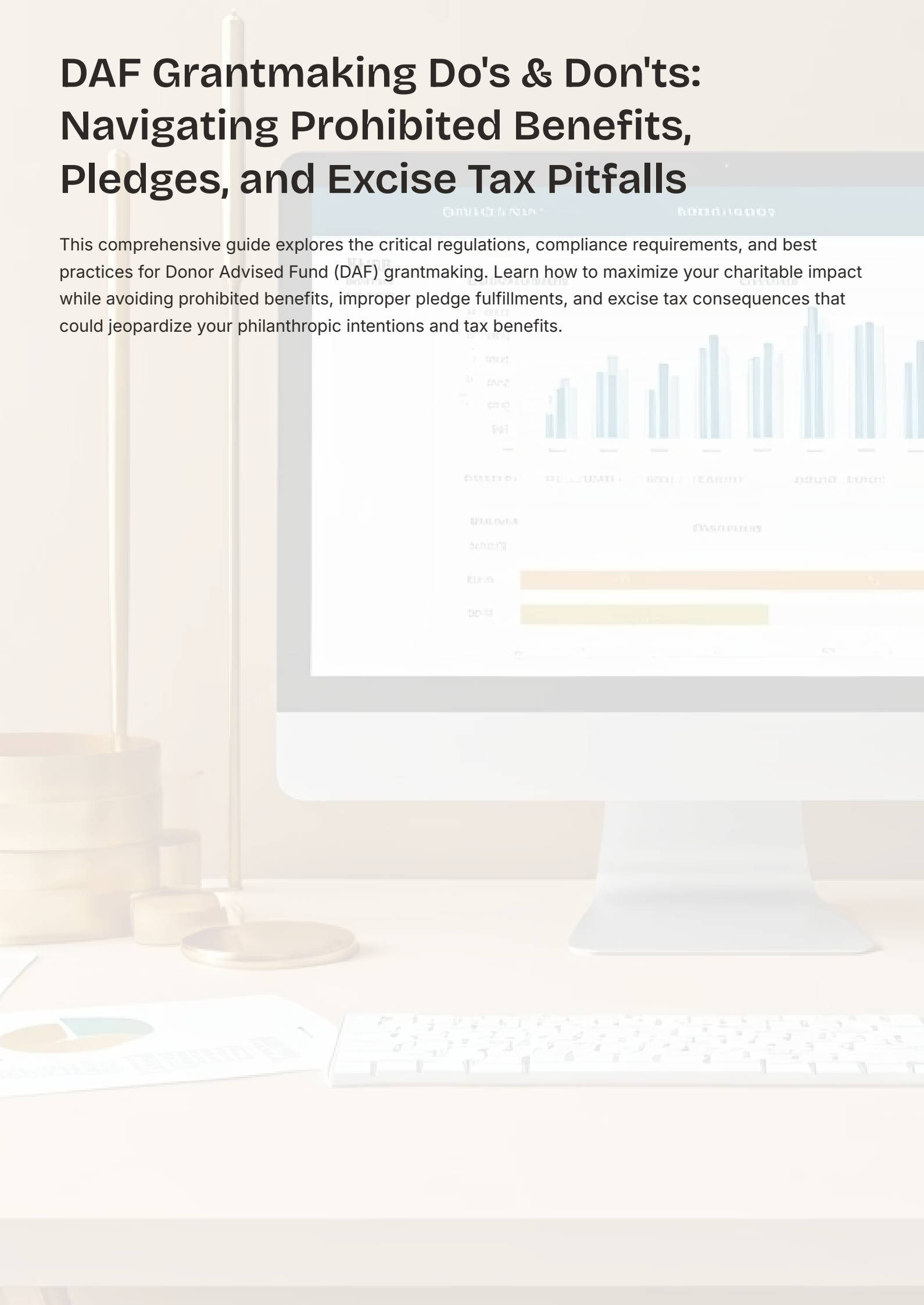


DAF Grantmaking Do's & Don'ts: Navigating Prohibited Benefits, Pledges, and Excise Tax Pitfalls

This comprehensive guide explores the critical regulations, compliance requirements, and best practices for Donor Advised Fund (DAF) grantmaking. Learn how to maximize your charitable impact while avoiding prohibited benefits, improper pledge fulfillments, and excise tax consequences that could jeopardize your philanthropic intentions and tax benefits.



Understanding Donor Advised Funds (DAFs)

Donor Advised Funds represent one of the fastest-growing vehicles for charitable giving in America. These specialized accounts allow donors to make charitable contributions, receive an immediate tax deduction, and then recommend grants to qualified nonprofit organizations over time while the funds grow tax-free.

Unlike private foundations, DAFs offer streamlined administration without the burden of annual payout requirements, excise taxes, or complex reporting. This accessibility has fueled their remarkable growth—as of 2025, over 2 million DAF accounts exist in the U.S., collectively holding more than \$250 billion in charitable assets and distributing upwards of \$54 billion annually to nonprofit organizations.



2M+

Active DAF Accounts

Representing a significant portion of America's charitable giving infrastructure

\$250B

Assets Under Management

Growing charitable reserves awaiting distribution to qualified nonprofits

\$54B

Annual Grants

Distributed to thousands of nonprofits advancing charitable missions worldwide

Qualified Grant Recipients and Grant Purposes

1

Eligible Recipients

Grants must be directed exclusively to IRS-qualified 501(c)(3) public charities, including educational institutions, religious organizations, hospitals, and private operating foundations that demonstrate active charitable programs.

2

Permissible Purposes

DAF grants can support general operating expenses, specific programs or projects, capital campaigns (with restrictions), and scholarship funds that follow proper selection procedures. Multi-year commitments are also allowed when structured appropriately.

3

Prohibited Recipients

DAF funds cannot be granted to private non-operating foundations, political organizations or campaigns, or any entity that would provide more than incidental benefits to the donor or related parties. International grants require additional due diligence.

When recommending grants, donors should verify the recipient's current tax-exempt status through the IRS Tax Exempt Organization Search tool or by requesting verification from their DAF sponsor. Most DAF sponsors maintain pre-approved lists of qualified organizations to streamline the grantmaking process while ensuring compliance.

Prohibited Personal Benefits — The Core "Don'ts"

The cornerstone of DAF regulation is the prohibition against using charitable funds for personal benefit. Federal tax law explicitly forbids any DAF grant that provides more than an incidental benefit to donors, advisors, or their family members—a rule that protects the charitable integrity of these vehicles.

Event Participation

DAF funds cannot purchase tickets to charity galas, golf tournaments, or fundraising events—even if the primary purpose is charitable. This includes the non-deductible portion that covers food, entertainment, or other benefits.

Auction & Raffle Items

Using DAF grants to bid on auction items or purchase raffle tickets is prohibited, as these transactions provide goods or services of value to the donor in exchange for charitable dollars.

Memberships with Benefits

DAF grants cannot fund memberships that provide material benefits like preferred parking, museum store discounts, or exclusive access—unless these benefits are explicitly waived in writing.

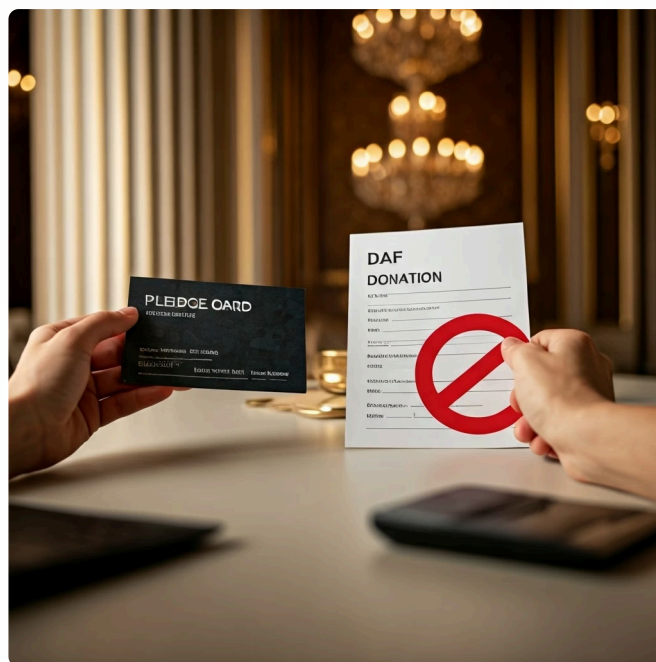
⊗ **Important:** Violations of these rules can result in excise taxes of up to 125% of the amount involved—assessed against both the donor/advisor who recommended the grant and the fund managers who approved it. Repeated violations may jeopardize the tax-exempt status of the sponsoring organization.

The "No Pledge Fulfillment" Rule

One of the most frequently misunderstood DAF restrictions involves personal pledges. DAF funds cannot be used to satisfy legally binding commitments that a donor has made personally to a charitable organization.

This rule prevents donors from receiving a tax deduction upfront while using DAF assets to fulfill personal obligations they've made to charitable organizations. The IRS views this as effectively "double-dipping" on tax benefits and potentially circumventing personal financial responsibilities.

For example, if a donor signs a pledge card committing \$10,000 to a capital campaign, that donor cannot later direct a DAF grant to satisfy this pledge. The commitment was made personally, not by the DAF sponsor who legally controls the funds.



"The critical distinction is between a legally binding pledge made by an individual versus a non-binding indication of intention to recommend a future DAF grant."



DO: Express Intent

State that you "intend to recommend" a DAF grant rather than signing binding pledge forms



DO: Notify Organizations

Inform charities that your support will come from your DAF, not personal assets



DO: Consult DAF Sponsor

Work with your DAF provider to properly structure multi-year or campaign support

Scholarships and Grants to Individuals — Strict Limitations

DAF funds can support scholarship programs, but only under careful structural restrictions designed to prevent personal benefit. The key principle is that donors and their family members must have no direct control over which individuals receive the scholarship funds.

Selection Committee Requirements

Scholarship selection committees must be independent, with donors, advisors, and related parties constituting less than 50% of the committee membership. Donors cannot have veto power or other decisive control over recipient selection.

Prohibited Individual Support

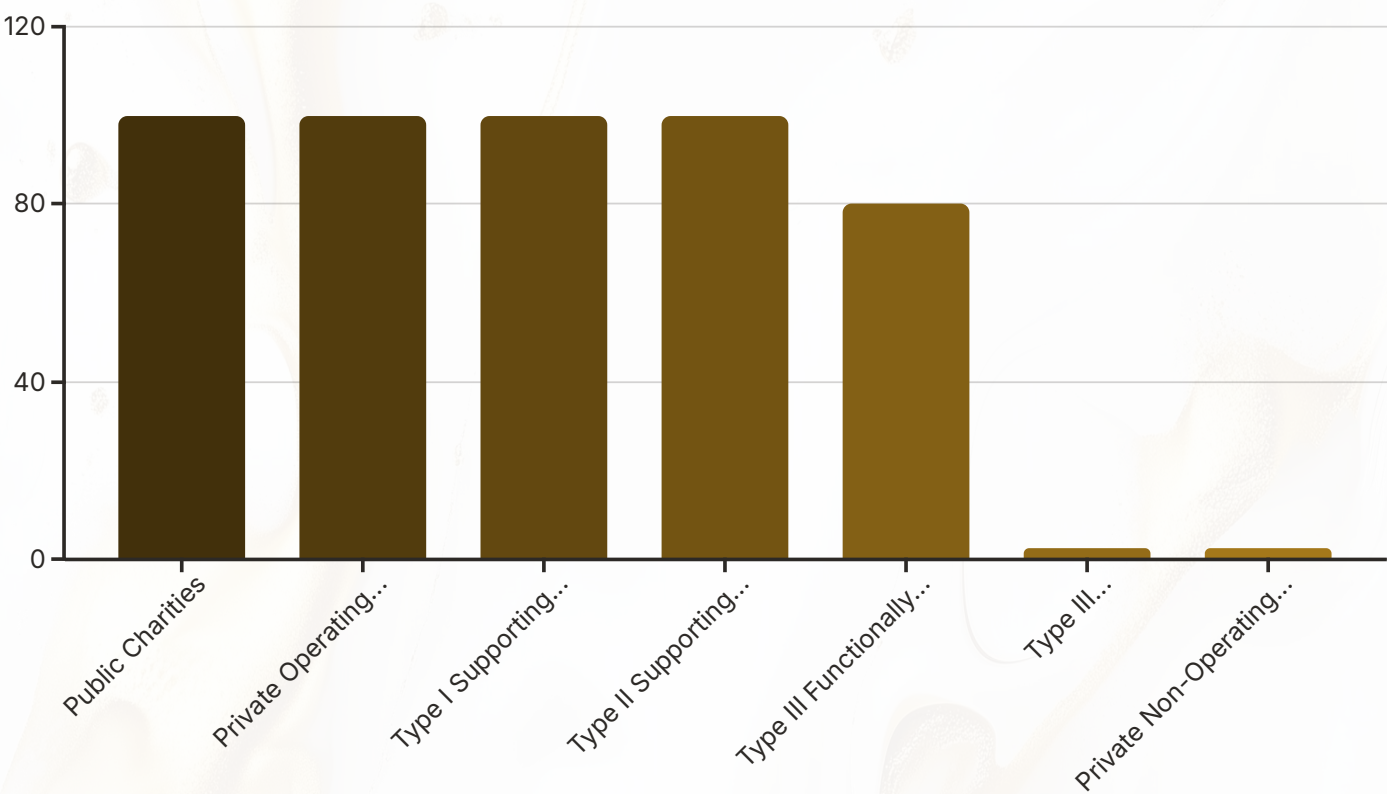
DAF grants cannot pay tuition or expenses for specific individuals known to the donor. For example, a donor cannot direct a DAF grant to pay for their neighbor's child's college tuition, even if that student would otherwise qualify for financial need.

Permitted Scholarship Structures

DAFs may fund scholarship programs administered by qualified public charities that use objective criteria, maintain proper documentation, and ensure independence in selection. The grant must be to the administering organization, not directly to individuals.

When structured properly, DAF-funded scholarships can create meaningful educational opportunities while maintaining necessary compliance. Many community foundations specialize in helping donors establish scholarship programs that follow these guidelines while fulfilling donors' philanthropic vision.

Grants to Private Foundations and Supporting Organizations



The IRS imposes specific restrictions on DAF grants to private foundations and supporting organizations to prevent circumvention of the stricter rules that govern these entities. These regulations aim to maintain the integrity of the charitable giving system and prevent potential abuses.

Grants to private operating foundations—those that actively conduct charitable programs rather than primarily making grants—are permitted if the foundation certifies its status and confirms the grant will not jeopardize that status. However, grants to private non-operating foundations, including family foundations, are prohibited entirely.

Many donors who previously maintained private foundations have chosen to terminate those entities in favor of DAFs, which offer greater tax efficiency and reduced administrative burden while maintaining similar grantmaking flexibility. This consolidation strategy has become increasingly common among philanthropic families seeking to streamline their giving while maintaining impact.

International Grants – Compliance and Due Diligence

Supporting international causes through a DAF is possible but requires navigating additional regulatory requirements. The IRS mandates specific compliance procedures for grants to organizations outside the United States or to U.S. entities that transfer funds internationally.

Equivalency Determination

This process involves obtaining documentation and analysis to determine that a foreign organization is equivalent to a U.S. public charity. The determination requires collecting organizational documents, financial information, and governance details to establish that the entity would qualify as a 501(c)(3) if it were based in the U.S.

1

2

Expenditure Responsibility

As an alternative to equivalency determination, expenditure responsibility requires the DAF sponsor to exercise due diligence to ensure the grant is used exclusively for charitable purposes. This includes a written agreement, separate accounting for grant funds, and regular reporting on grant usage.

3

Compliance Reporting

International grants require ongoing monitoring and documentation. DAF sponsors typically charge additional fees for this specialized oversight, which may range from \$250 to \$5,000 depending on the complexity of the grant and the level of due diligence required.

Due to these requirements, international grants often take longer to process—typically 4-8 weeks or more—making them unsuitable for urgent funding needs. Some DAF sponsors maintain pre-approved lists of vetted international organizations to streamline the process for donors interested in global giving.

Excise Tax Pitfalls and Regulatory Compliance

Unlike private foundations, DAFs generally enjoy exemption from the 1.39% excise tax on net investment income. However, this favorable tax treatment comes with strict compliance expectations and potential penalties for improper use of DAF assets.

The most significant excise tax pitfalls involve transactions that provide prohibited benefits to donors or related parties. When such violations occur, the IRS can impose excise taxes on multiple parties:

- A 125% tax on the donor/advisor who receives the prohibited benefit
- A 10% tax (up to \$10,000) on fund managers who knowingly approve such transactions
- Additional penalties for repeated or willful violations

Recent Treasury proposals (2023-2025) aim to strengthen regulatory oversight of DAFs, particularly targeting situations where these vehicles might be used as conduits for private benefit. These proposals include enhanced reporting requirements, stricter payout timelines for certain DAF types, and closing loopholes that could allow indirect personal benefits.



Regulatory Trend

Alert: Treasury and IRS scrutiny of DAFs has intensified significantly since 2023, with particular focus on verification of qualified grant recipients and prevention of indirect benefits to donors.

Best Practices for Grant Recommendations

01

Verify Recipient Eligibility

Before recommending a grant, confirm the organization's current 501(c)(3) status through the IRS Tax Exempt Organization Search tool or your DAF sponsor's pre-approved list. Request verification of any organization not previously funded.

02

Use Secure Online Portals

Submit grant recommendations through your DAF sponsor's secure online platform, which typically includes built-in compliance checks and maintains proper documentation of the grant process.

03

Provide Clear Grant Purpose

Specify the charitable purpose of each grant, indicating whether it supports general operations, a specific program, or another charitable purpose. Avoid language suggesting the grant fulfills a personal pledge.

04

Consider Unrestricted Support

When possible, favor unrestricted or general operating support grants, which provide nonprofits with maximum flexibility to address their most pressing needs while minimizing compliance complications.

05

Plan Multi-Year Commitments

For sustained support of organizations, consider structured multi-year grants that provide predictable funding streams without creating prohibited personal pledges. Work with your DAF sponsor to properly document these arrangements.

The most successful DAF donors maintain open communication with both their DAF sponsors and recipient organizations. Many DAF sponsors offer philanthropic advising services to help donors maximize impact while navigating compliance requirements—a resource worth utilizing for complex grantmaking situations.

Case Studies – Common Mistakes and How to Avoid Them

The Gala Ticket Misstep

Situation: Donor Jane recommended a \$5,000 DAF grant to a museum fundraiser and received two gala tickets valued at \$500 each in return.

Outcome: The IRS disallowed Jane's original tax deduction for the DAF contribution and assessed a 125% excise tax on the \$1,000 benefit she received. The DAF sponsor was also penalized for approving the prohibited grant.

Correct Approach: Jane should have made the DAF grant as unrestricted support and separately purchased the gala tickets with personal funds.

The Family Foundation Transfer

Situation: Donor Robert recommended a \$100,000 DAF grant to his family's private non-operating foundation to consolidate grantmaking.

Outcome: The grant was flagged as prohibited, triggering an audit of both the DAF sponsor and the private foundation. Robert had to redirect the grant to qualified public charities.

Correct Approach: Robert should have made grants directly from the DAF to the same public charities his family foundation intended to support.

The Scholarship Selection Problem

Situation: Donor Maria established a scholarship fund through her DAF and insisted on personally selecting recipients from her community.

Outcome: The DAF sponsor declined to implement the scholarship as structured. After education about the rules, Maria agreed to fund a scholarship program administered by a local community foundation with an independent selection committee.

Correct Approach: Maria should have established the scholarship through a qualified public charity with an independent selection process where she could participate but not control decisions.

Leveraging DAFs for Impact Without Risk



"The most effective DAF giving strategies balance donor intent with regulatory compliance, creating sustainable impact without administrative burden or compliance risk."

DAFs offer tremendous flexibility for strategic philanthropy when navigated properly. By understanding the boundaries and working proactively with your DAF sponsor, you can maximize your charitable impact while avoiding compliance pitfalls.

Consider these strategies for leveraging your DAF effectively:

- **Strategic bunching** – Concentrate multiple years of charitable giving into a single tax year to itemize deductions, then use your DAF to distribute grants over time
- **Appreciated asset donations** – Contribute long-term appreciated securities to avoid capital gains taxes while receiving a fair market value deduction
- **Legacy planning** – Name your DAF as a beneficiary in your estate plan to create a charitable legacy without the administrative burden of a private foundation
- **Collaborative giving** – Participate in giving circles or pooled funds through your DAF sponsor to amplify impact in specific cause areas

The key to success is maintaining clear boundaries between personal finances and DAF assets, treating the DAF as the charitable vehicle it is legally designed to be.

Resources and Support



IRS Resources

- IRS Publication 526: Charitable Contributions
- IRS Publication 590: Individual Retirement Arrangements
- Tax Exempt Organization Search: irs.gov/teos
- Notice 2017-73: Proposed Guidance on DAFs



DAF Sponsor Resources

- National Philanthropic Trust: Donor-Advised Fund Reference Guide
- California Community Foundation: DAF Guidelines
- Fidelity Charitable: Giving Account® Resources
- Schwab Charitable: DAF Planning Tools



Professional Support

- Tax attorneys specializing in charitable giving
- Philanthropic advisors certified in DAF regulations
- Estate planning professionals with nonprofit expertise
- Community foundation philanthropy services teams

Many DAF sponsors offer dedicated philanthropic services teams that can provide personalized guidance on complex grantmaking situations. These professionals are typically well-versed in both the technical requirements and practical implementation of DAF regulations. Consultations with these teams are usually included as part of your DAF administrative fees and can help prevent costly compliance mistakes.

Conclusion: Ensuring Your DAF Grants Are Compliant and Impactful

DAFs represent a powerful tool for strategic philanthropy, offering significant tax advantages and administrative simplicity. However, their effectiveness depends on careful navigation of the regulatory landscape that governs their use.

By adhering to the core principles outlined in this guide—avoiding prohibited personal benefits, respecting pledge restrictions, following proper international grantmaking procedures, and understanding excise tax implications—you protect both your tax benefits and the charitable mission of your giving.

Remember that DAF sponsors are your partners in compliance. Their expertise and oversight are designed to help you maximize the impact of your philanthropy while avoiding regulatory pitfalls. When in doubt, consult with your DAF provider before proceeding with grants that may raise compliance questions.



Your commitment to proper DAF stewardship ensures that your generosity creates lasting positive change without unintended consequences.

As regulations continue to evolve in response to the growing significance of DAFs in the philanthropic landscape, staying informed and adaptable will be essential. Partner with knowledgeable advisors, engage actively with your DAF sponsor, and approach your giving with both generosity and diligence.