

# Donor-Advised Funds (DAFs): How They Work & Why They Matter

A comprehensive guide to understanding the fastest-growing charitable giving vehicle in America, its historical context, and how it compares to traditional philanthropic options.





# Chapter 1: Introduction to Donor-Advised Funds

Donor-Advised Funds represent a revolutionary approach to charitable giving, combining flexibility, tax efficiency, and simplicity. This section explores the fundamentals of DAFs and why they've become increasingly popular among donors of all sizes.

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What are DAFs?

02

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How they work

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Benefits & flexibility

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Impact on philanthropy

# What Is a Donor-Advised Fund?

A Donor-Advised Fund is a charitable giving account established at a public charity, often called a **sponsoring organization**. Unlike direct donations, DAFs act as intermediaries that provide donors with immediate tax benefits while allowing them to recommend grants over time.

Think of a DAF as your personal charitable checking account, where you maintain advisory privileges over how the funds are invested and distributed to qualified charities.



Donors can contribute various types of assets to their DAF

## Eligible Assets

- Cash & securities
- Private company shares
- Cryptocurrency
- Real estate
- Complex assets

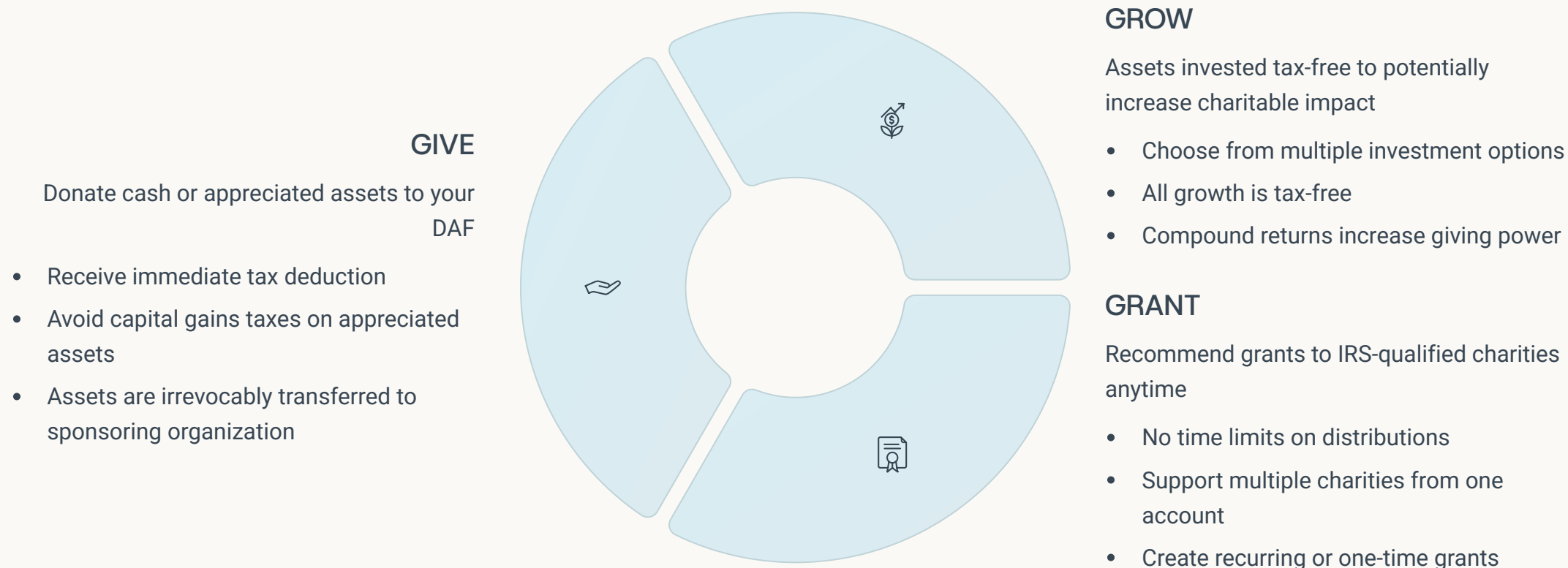
## Key Players

- Donors (advisors)
- Sponsoring organizations
- Investment managers
- Recipient charities

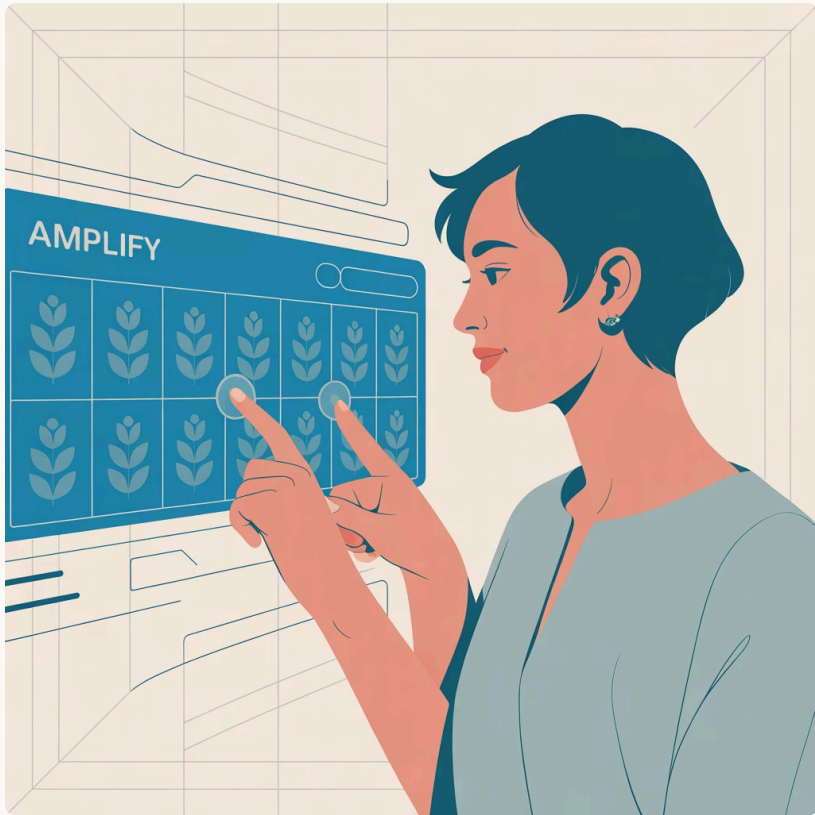
## Legal Structure

- Account at public charity
- Irrevocable donations
- Advisory privileges
- IRS recognition

# How Donor-Advised Funds Work: The 3-Step Cycle




# The Power of Flexibility & Control



With a DAF, donors maintain significant control over their charitable capital while benefiting from the simplicity of a single giving account. This flexibility allows for strategic philanthropy tailored to each donor's values and timeline.

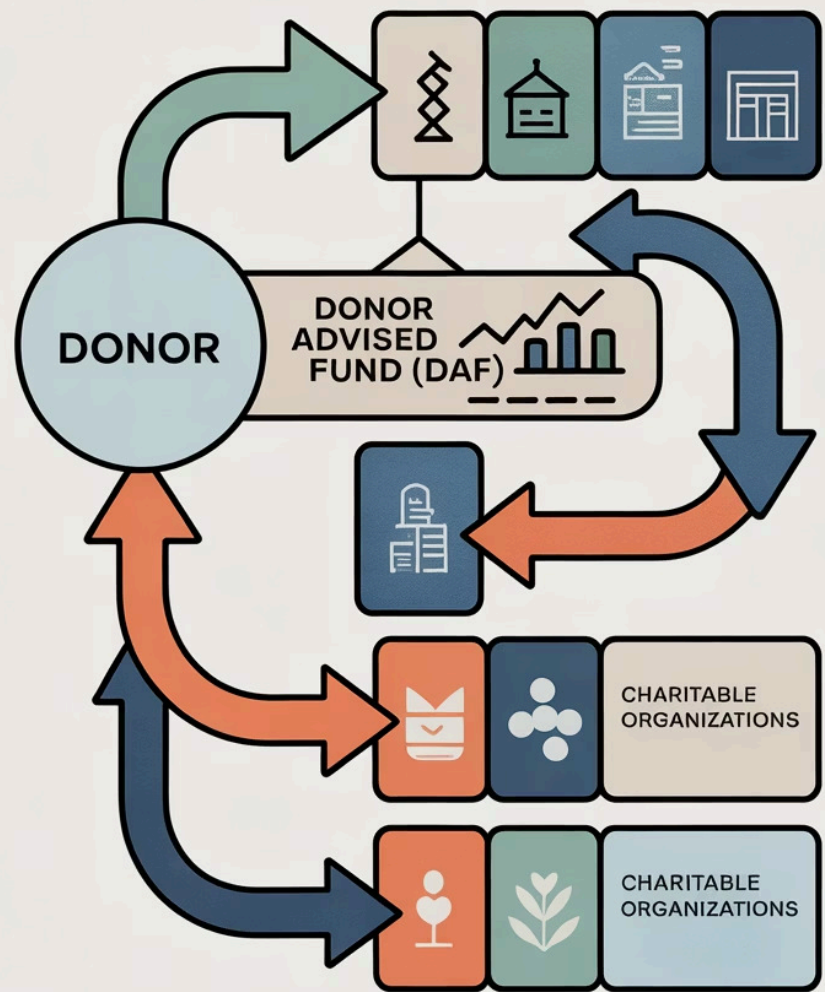
## Donor Control Elements:

- **Timing:** Separate tax decisions from giving decisions - donate now, grant later
- **Destination:** Recommend grants to any qualified 501(c)(3) organization
- **Amount:** Grant as little as \$50 to as much as your entire balance
- **Recognition:** Choose to give anonymously or with full attribution
- **Frequency:** Set up recurring grants or make one-time donations

 **Important:** While donors have advisory privileges, the sponsoring organization maintains legal control and must approve all grant recommendations to ensure they align with charitable purposes.

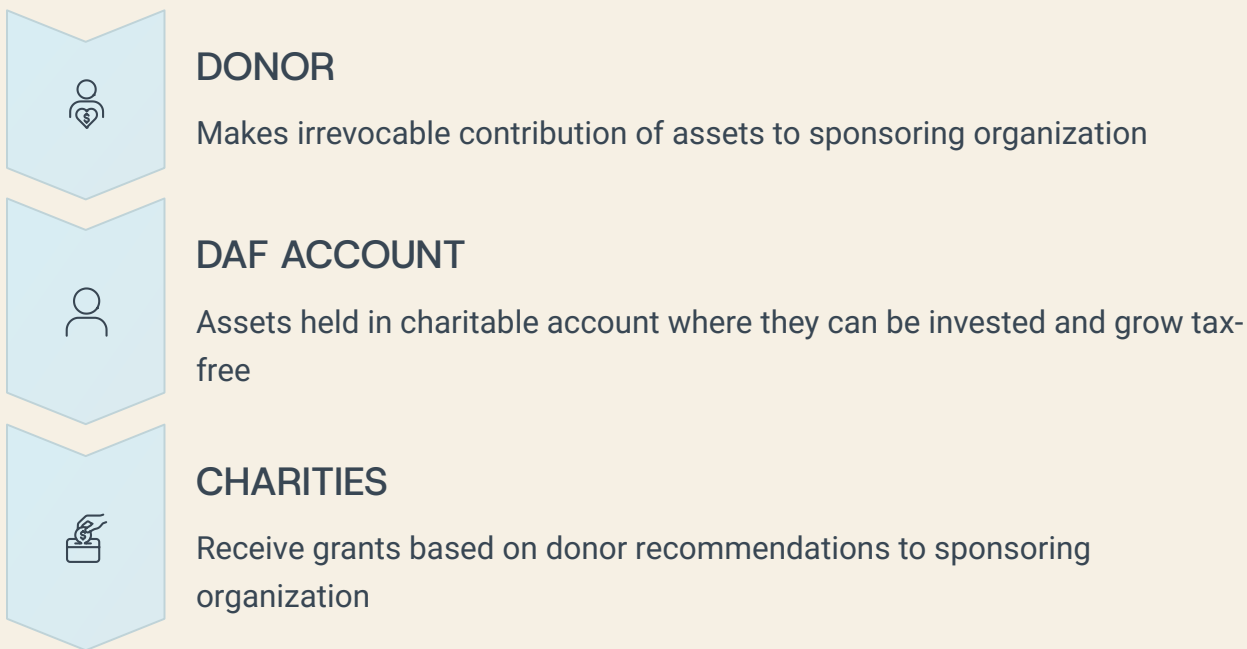


# Donor Advised Fund Flow



# The DAF Ecosystem: How Funds Flow

Donor-Advised Funds create an efficient ecosystem that facilitates the flow of charitable capital from donors to nonprofits, with professional management and investment growth along the way.



The sponsoring organization provides administrative support, tax receipts, investment management, due diligence on grant recipients, and regulatory compliance - allowing donors to focus on their giving strategy.

# Why Donor-Advised Funds Matter Today

DAFs have revolutionized philanthropy by making strategic charitable giving accessible to a broader range of donors. Their growing popularity reflects their ability to address modern giving challenges and opportunities.

## Democratization of Philanthropy

With minimum contributions often as low as \$5,000 (compared to millions for private foundations), DAFs enable more people to engage in structured philanthropy with professional support.

## Collective Impact

By aggregating millions of donors' contributions, DAF sponsors can leverage economies of scale for greater charitable impact, better investment options, and reduced administrative costs.

## Tax Efficiency

DAFs offer superior tax advantages, including deductions up to 60% of adjusted gross income for cash gifts and elimination of capital gains tax on appreciated assets.



DAFs have broadened access to strategic philanthropy



**2022 Impact:** \$52.16 billion granted to charities from DAFs nationwide, representing over 10% of all individual giving in America

# Chapter 2: History of Philanthropy & the Rise of Donor-Advised Funds

Understanding how philanthropy has evolved helps explain why Donor-Advised Funds have emerged as a transformative vehicle for charitable giving in the modern era.

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## Traditional Philanthropy

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## DAF Origins

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## Growth Patterns

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## Key Players





# Philanthropy Before DAFs: Foundations & Trusts

## Private Foundations

Historically, strategic philanthropy was dominated by wealthy families through private foundations, which presented significant barriers:

- High startup costs (\$250,000+ in legal fees)
- Complex administration and governance
- Required 5% annual distribution minimum
- Annual tax filings (Form 990-PF)
- Excise tax on investment income

Examples: Ford Foundation, Rockefeller Foundation, Gates Foundation

## Charitable Trusts

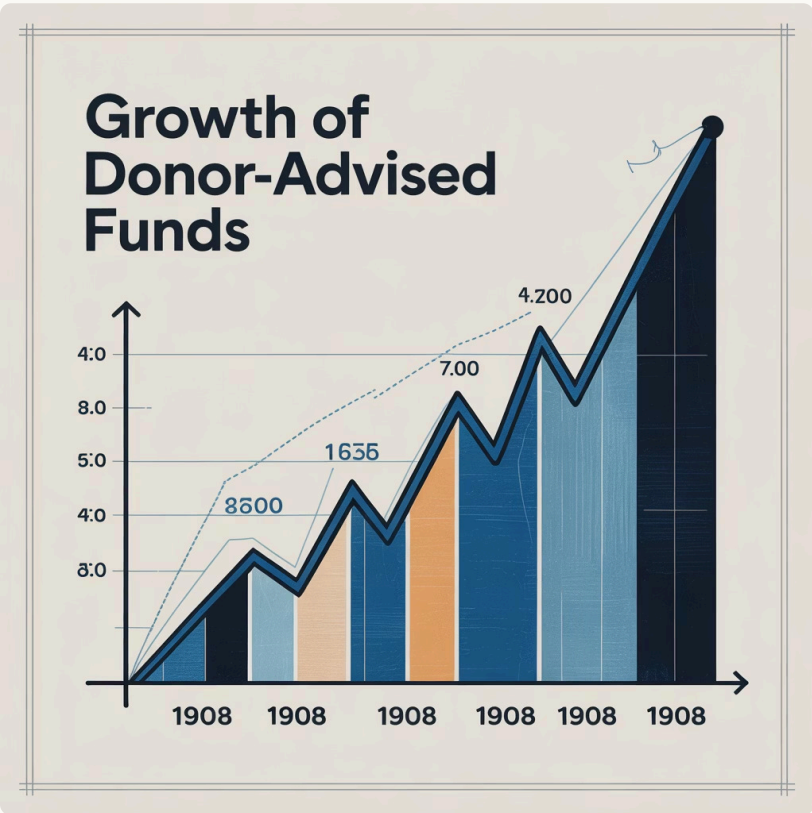
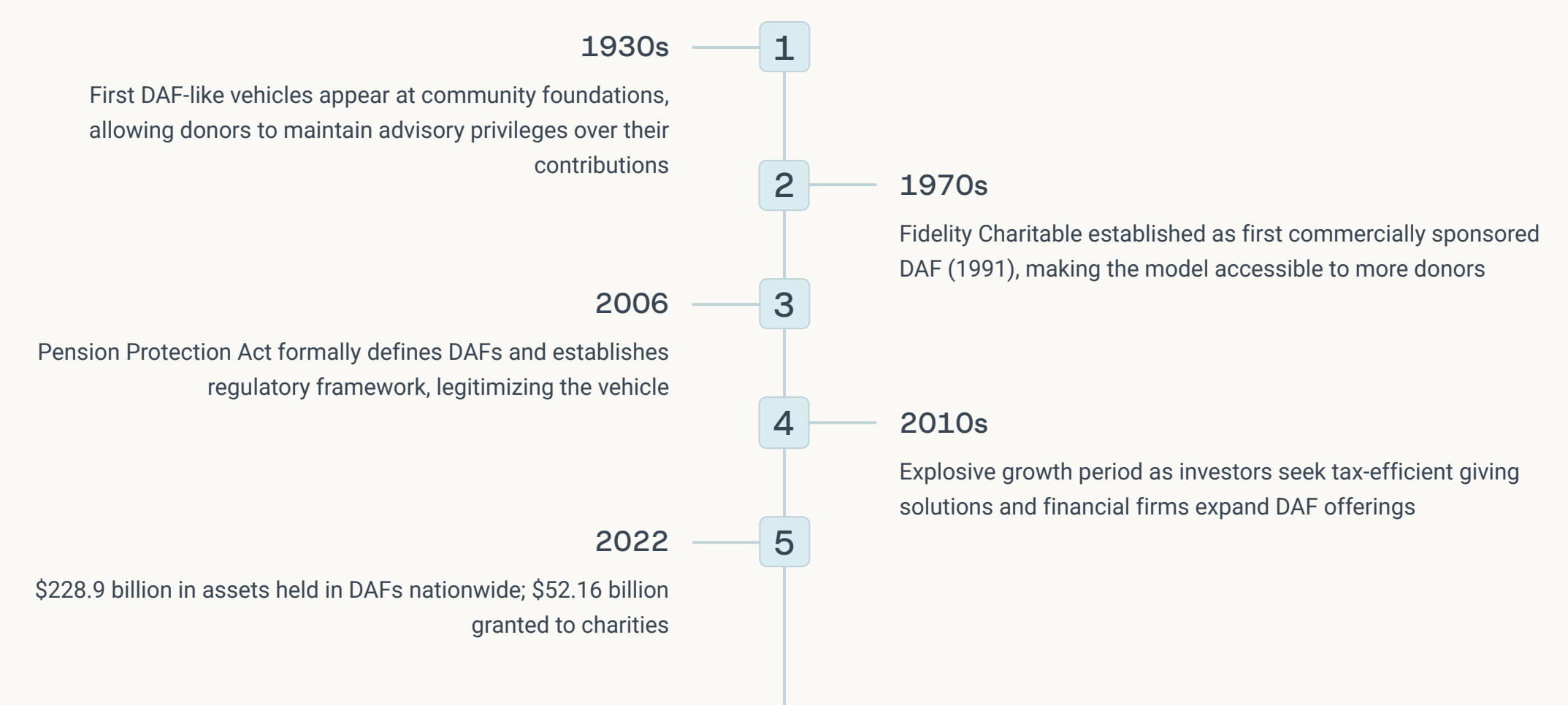
Alternative legal structures with specific constraints:

- Fixed terms and predetermined beneficiaries
- Complex legal requirements
- Limited flexibility for changing charitable recipients
- Significant setup and maintenance costs
- Often used primarily for estate planning

Primary types: Charitable Remainder Trusts (CRTs) and Charitable Lead Trusts (CLTs)

These traditional vehicles effectively restricted strategic philanthropy to the ultra-wealthy, creating a gap in the charitable giving landscape for donors of moderate means.

# The Birth and Growth of Donor-Advised Funds

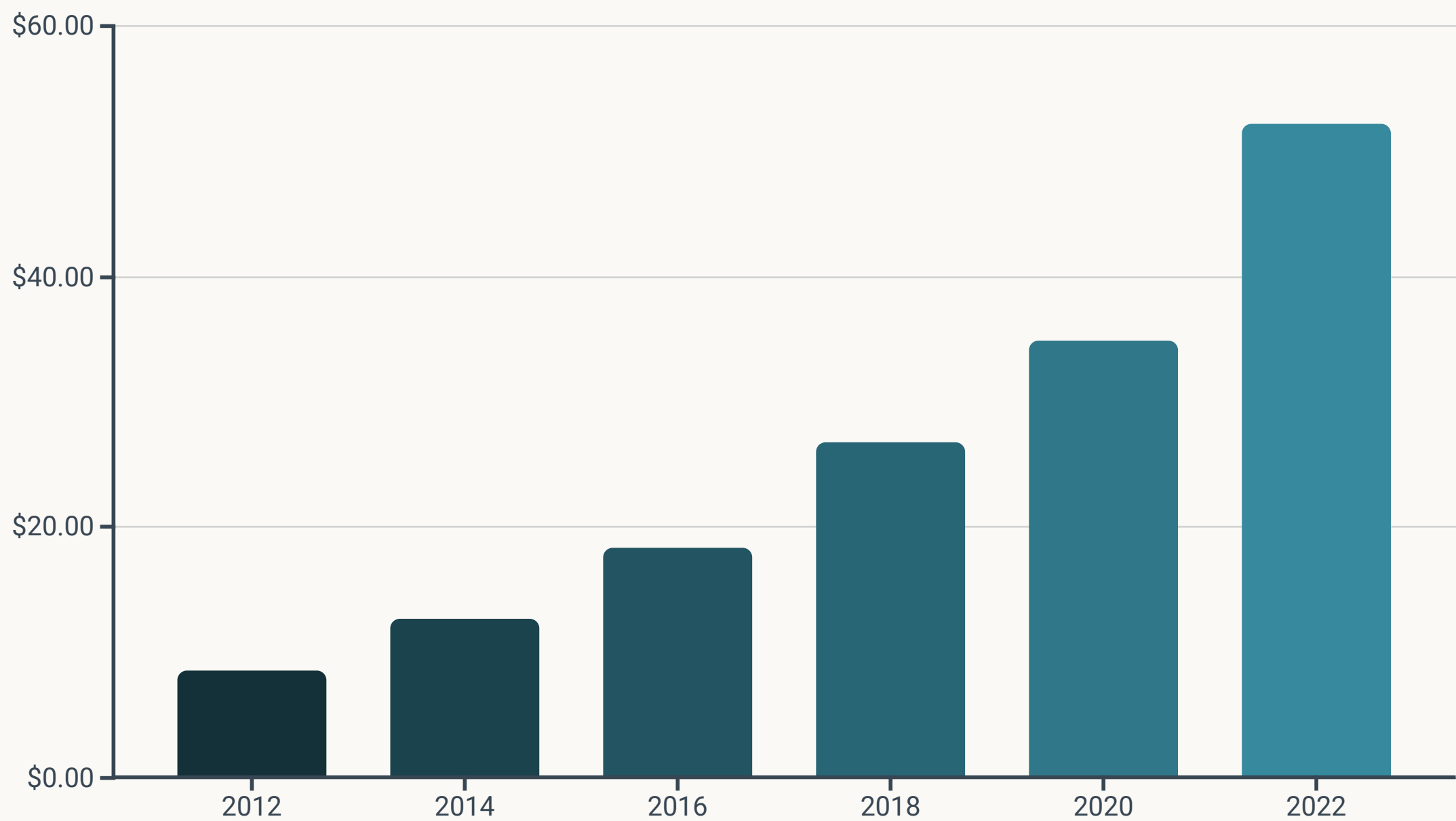


## Why DAFs Gained Popularity

Donor-Advised Funds emerged as a response to the limitations of traditional philanthropic vehicles, offering:

- Lower entry points (often \$5,000-\$25,000 vs. millions)
- Simplified administration and no separate legal entity
- Superior tax advantages compared to private foundations
- Professional investment management and grantmaking support
- Ability to accept complex assets more easily than direct nonprofit gifts

# Dramatic Growth in Giving Through DAFs



The explosive growth in DAF grantmaking reflects their increasing role in American philanthropy. In just a decade, annual grants from DAFs increased more than **six-fold**, with current figures showing DAFs now facilitate over 10% of all individual charitable giving in the United States.

2.7M

Annual Grants

Number of grants recommended by Fidelity Charitable donors alone in 2024

20%

Average Payout Rate

Percentage of DAF assets granted annually to charities (4x the private foundation minimum)

1,288,380

DAF Accounts

Total number of active Donor-Advised Fund accounts in the U.S. as of 2022

# Key Players in the DAF Ecosystem

The DAF landscape includes diverse sponsoring organizations, each with unique advantages and focus areas. Understanding these differences helps donors select the right DAF provider for their philanthropic goals.



## Community Foundations

- Local/regional focus with deep community knowledge
- Often provide philanthropic advising
- May have higher fees but more personalized service
- Examples: Silicon Valley Community Foundation, Chicago Community Trust



## National DAF Sponsors

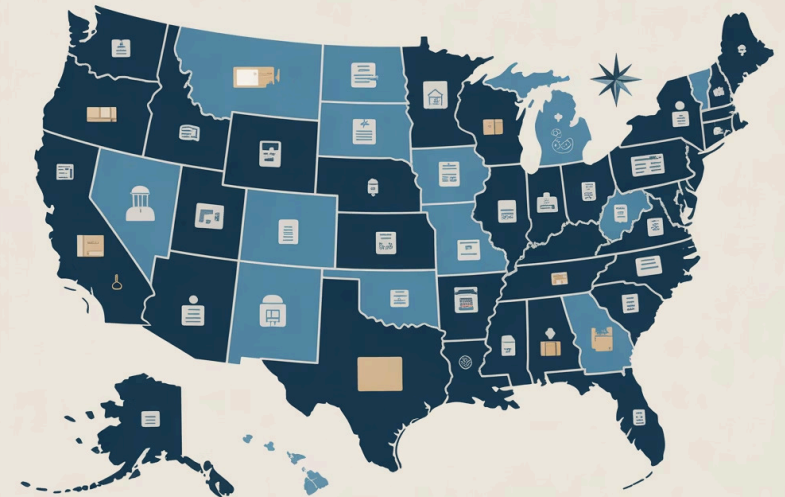
- Commercial investment firms with DAF programs
- Lower minimum contributions and fees
- Strong technology platforms and investment options
- Examples: Fidelity Charitable, Schwab Charitable, Vanguard Charitable



## Single-Issue/Mission-Focused

- Focus on specific causes or institutions
- Specialized knowledge in their focus area
- May offer unique giving opportunities
- Examples: Jewish Federations, university foundations

## United States Map



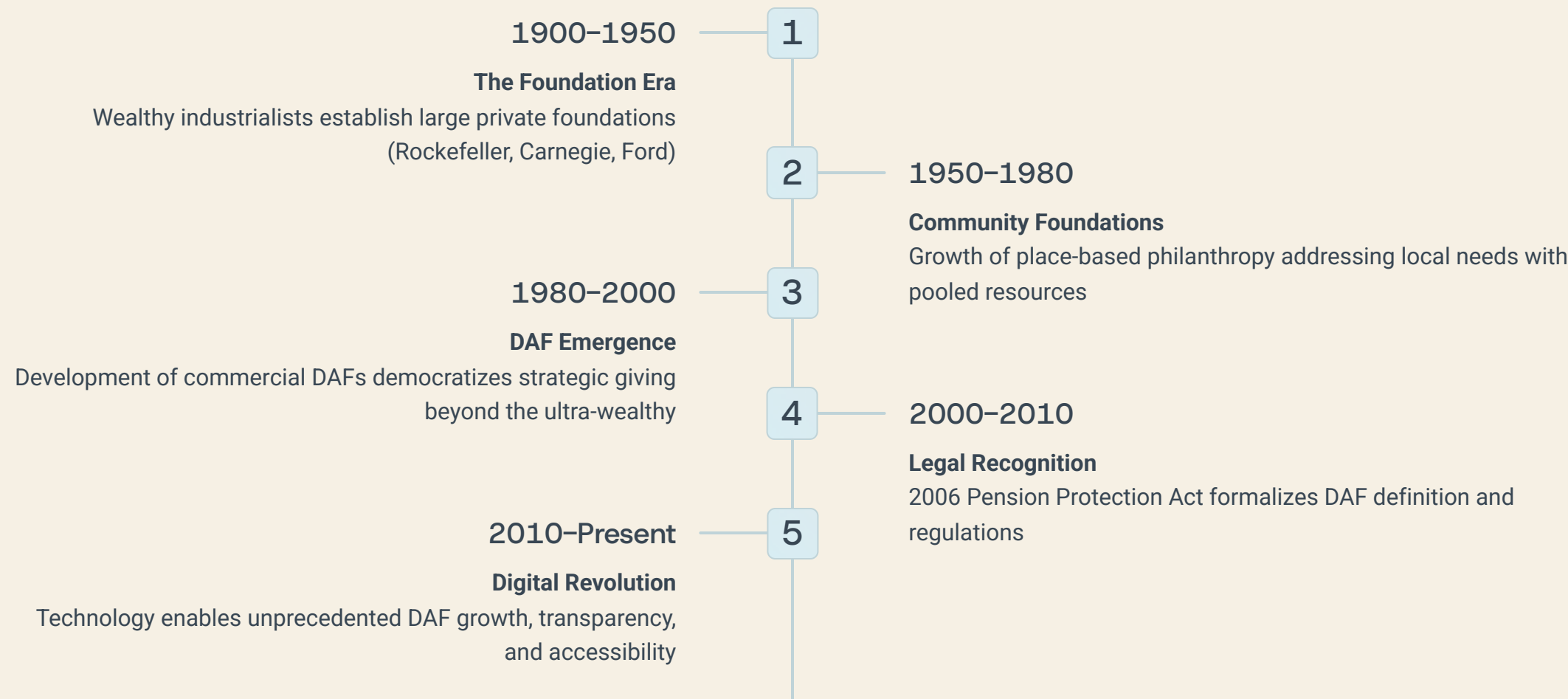
Distribution of major DAF sponsors across the United States



**Market Share:** National DAF sponsors hold approximately 70% of all DAF assets, with community foundations at 25% and single-issue sponsors at 5%.

**Selection Factors:** When choosing a DAF sponsor, consider minimum contribution requirements, fee structure, investment options, granting policies, and additional services offered.

# The Evolution of American Philanthropy



This evolution reflects broader trends in American society - from concentrated wealth and power toward more distributed, democratic models of philanthropy that engage donors at various income levels.





THE GIVING SEED

# Chapter 3: Comparing DAFs, Private Foundations, and Charitable Trusts

Each philanthropic vehicle offers different advantages and limitations. Understanding these differences helps donors select the right approach for their unique circumstances and goals.

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DAFs vs. Foundations

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DAFs vs. Trusts

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Tax Considerations

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Strategic Uses

# Private Foundations vs. Donor-Advised Funds

## Private Foundations



- **Structure:** Separate legal entity (corporation or trust)
- **Control:** Complete control over investments, grants, and operations
- **Payout:** Required 5% annual distribution minimum
- **Administration:** Board, staff, annual tax filings, excise taxes
- **Startup:** \$250,000+ in legal and setup costs
- **Typical size:** \$1M+ (often \$10M+)
- **Privacy:** Public disclosure of grants, investments, and salaries

## Donor-Advised Funds



- **Structure:** Account at existing public charity
- **Control:** Advisory privileges; final decisions made by sponsor
- **Payout:** No minimum requirement (average ~20% annually)
- **Administration:** Handled by sponsoring organization
- **Startup:** Often \$5,000-\$25,000 initial contribution
- **Typical size:** Accessible at many income levels
- **Privacy:** Anonymous granting options available

❏ **Key Distinction:** Foundations offer complete control but come with significant administrative burdens and reduced tax benefits. DAFs provide simplified administration and better tax treatment but less absolute control.



# Charitable Trusts vs. Donor-Advised Funds

## Charitable Trusts



Charitable trusts are legal arrangements primarily designed for estate planning and specific income streams.

- **Structure:** Legal entity with irrevocable terms
- **Types:** Charitable Remainder Trusts (CRTs) & Charitable Lead Trusts (CLTs)
- **Beneficiaries:** Fixed at creation, difficult to modify
- **Income:** Can provide income stream to donor or family
- **Setup:** Requires attorney, complex documentation
- **Flexibility:** Limited ability to change charitable recipients
- **Termination:** Fixed term or life of donor/beneficiaries

## Donor-Advised Funds



DAFs provide more flexibility and simplicity than trusts while still offering significant tax advantages.

- **Structure:** Account at existing public charity
- **Types:** Single vehicle with multiple investment options
- **Beneficiaries:** Can recommend any qualified charity
- **Income:** No income stream to donor (irrevocable gift)
- **Setup:** Simple account opening, no legal documents
- **Flexibility:** Change grant recipients anytime
- **Termination:** Can exist in perpetuity or specify succession

"Unlike charitable trusts, which lock in beneficiaries and terms, DAFs provide ongoing flexibility to adapt your giving as needs and priorities evolve."

# Tax Benefits Comparison

One of the most significant differences between charitable giving vehicles is their tax treatment. DAFs typically offer the most favorable tax benefits, making them particularly attractive for donors seeking to maximize their charitable impact.

Tax Consideration	Donor-Advised Fund	Private Foundation	Charitable Trust
Cash donation deduction limit (% of AGI)	60%	30%	Varies by type
Appreciated securities deduction limit (% of AGI)	30%	20%	Varies by type
Deduction based on	Fair market value	Fair market value*	Varies by type
Excise tax on investment income	None	1.39%	None
Capital gains tax on donated appreciated assets	Avoided	Avoided	Typically avoided
Carryforward period for excess deductions	5 years	5 years	5 years

\*For closely held stock, private foundations must use cost basis rather than fair market value.

**📘 Tax Efficiency Example:** When donating \$100,000 in appreciated stock (with \$20,000 cost basis), a DAF donor can avoid approximately \$19,000 in capital gains tax and receive a full fair market value deduction, creating significantly more tax benefit than a direct sale and cash donation.

# Strategic Uses of Each Vehicle

## Donor-Advised Funds

### Ideal for:

- First-time strategic givers
- Simplifying giving (one tax receipt)
- Donating appreciated assets
- Bunching deductions in high-income years
- Anonymous giving
- Involving family in philanthropy
- Giving during wealth liquidity events

**Best when:** You want flexibility, simplicity, and maximum tax efficiency without administrative burdens.

## Private Foundations

### Ideal for:

- Multi-generational legacy planning
- Creating a family philanthropic identity
- Employing family members
- Running charitable programs directly
- Making grants to individuals
- International grantmaking
- Program-related investments

**Best when:** Control and legacy are primary concerns and assets exceed \$5-10 million.

## Charitable Trusts

### Ideal for:

- Estate planning
- Creating income streams
- Reducing estate taxes
- Transferring assets to heirs
- Supporting specific charities
- Donating illiquid assets
- Split-interest arrangements

**Best when:** Estate planning and income generation are primary goals alongside charitable impact.

Many sophisticated philanthropists utilize multiple vehicles in combination - for example, using a DAF for current giving while establishing a foundation or trust for legacy planning. Financial advisors and philanthropy consultants can help determine the optimal approach.



# Comparing Philanthropic Vehicles



## Startup & Maintenance

**DAF:** ★★★★★ Simple setup, low minimums, no separate legal entity

**Foundation:** ★★☆☆☆ Complex setup, high costs, ongoing administration

**Trust:** ★★★☆☆ Moderate complexity, legal documentation required



## Tax Benefits

**DAF:** ★★★★★ Highest AGI limits, fair market value deductions

**Foundation:** ★★☆☆☆ Lower AGI limits, excise tax on investment income

**Trust:** ★★★☆☆ Complex but potentially significant tax advantages



## Control & Governance

**DAF:** ★★★☆☆ Advisory privileges, sponsoring organization has final say

**Foundation:** ★★★★★ Complete control over all aspects, including staff

**Trust:** ★★☆☆☆ Limited flexibility once established



## Flexibility & Adaptability

**DAF:** ★★★★★ Change grant recipients anytime, invest in multiple ways

**Foundation:** ★★★★★ Change mission but with governance requirements

**Trust:** ★☆☆☆☆ Very difficult to modify terms after creation

While this comparison provides a high-level overview, the optimal charitable vehicle depends on each donor's unique situation, including asset types, tax considerations, desired level of control, and long-term philanthropic vision.

☐ **Hybrid Approach:** Many donors use DAFs alongside other vehicles - for example, fulfilling a foundation's 5% distribution requirement by granting to a DAF for specialized giving programs or anonymous grants.

# Conclusion: Why Donor-Advised Funds Are Transforming Philanthropy

Donor-Advised Funds represent a significant evolution in philanthropic giving, balancing donor flexibility with simplified administration and superior tax benefits. Their explosive growth - now exceeding \$50 billion in annual grants - demonstrates their effectiveness in meeting modern donors' needs.

## Key Takeaways:

- **Accessibility:** DAFs have democratized strategic philanthropy, allowing donors at various wealth levels to engage in thoughtful, planned giving
- **Efficiency:** The combination of immediate tax benefits, appreciated asset donations, and simplified administration creates unmatched giving efficiency
- **Flexibility:** The ability to separate tax decisions from giving decisions enables more strategic philanthropy focused on impact
- **Growth:** Tax-free investment growth potentially increases charitable impact over time
- **Legacy:** Succession options allow donors to involve family and continue charitable impact across generations



"DAFs represent the democratization of strategic philanthropy, bringing sophisticated giving tools previously reserved for the ultra-wealthy to millions of Americans."

As the fastest-growing giving vehicle in America, Donor-Advised Funds are transforming how individuals approach charitable giving - empowering donors to create greater impact while simplifying the giving process.