

What is a Donor-Advised Fund?

- A dedicated account for making charitable contributions, with some tax benefits.
- Acts as a proxy for individuals to make donations to nonprofits.
- Usually housed at a community foundation or a fund manager.
- Offers the donor convenience, flexibility—and anonymity, if they want it.
- A growing area of philanthropy—the number of DAFs more than tripled from 2015 to 2019.

A donor-advised fund (DAF) is a flexible, tax-advantaged and convenient way for people who plan to donate more than a few thousand dollars to make charitable contributions. DAFs are usually held at community foundations or fund managers like Fidelity Charitable. Contributions to DAFs represent a fast-growing share of individual charitable giving.

So how does it work?

A donor opens a DAF account at a community foundation or charitable fund manager. The cash, stocks or other funds the donor places in the account are treated as a tax-deductible donation right away—even if the money sits in the account for a while. Those funds are now in the control of the fund manager (the “sponsoring organization”).

The sponsoring organization invests the funds and manages the investment. Any investment income is tax-free to the account holder.

The account holder directs the sponsoring organization to make donations to their preferred nonprofits. The fund manager then makes the donation and handles the related paperwork and administration work. (The account holder cannot spend this money in any other way. Money in a DAF is specifically held for making donations.)

How popular is giving through DAFs, and why?

According to the National Philanthropic Trust, which publishes an annual report on



DAFs, contributions to, grants from DAFs, and the total number of DAFs have all increased significantly over the past decade—especially in the last few years. The number of DAFs more than tripled from 2015 to 2019. As of 2019, more than \$140 billion in assets were held in DAFs. More than \$25 billion in grants came from DAFs in 2019.

Some donors fund DAFs as an alternative to creating a private foundation because the sponsoring organization handles the paperwork and operating costs, and there are no minimum annual payout requirements. DAFs can also be a way for individuals to make anonymous donations. When a contribution comes from a DAF, it presents as a grant from the sponsoring organization, not the individual account holder. On the other hand, contributions to a DAF are irrevocable, and technically, account holders are only advisors regarding how the money is spent or invested. While it's rare for a sponsoring organization not to follow an account holder's recommendation about where to donate, a DAF holder has less control than the creator of a private foundation. Unlike private foundations, DAFs are generally not set up to exist for generations (or perpetuity).

How do I apply for a grant from a DAF?

When you see Fidelity Charitable named as the nation's top grantmaker, it's natural to wonder how to apply for a grant from them. The problem is, Fidelity Charitable holds this position because it houses more than 150,000 DAFs. And grants from those DAFs are recommended by the individual DAF account holders.

There's no single process for applying for funding from a DAF. Often, it's more like major-gift fundraising from individual donors; when an individual says yes to a request for funding, the fundraiser then learns that they'll be making the gift through a DAF rather than directly. Beyond that, the best way to access grants from DAFs is (as with so many things) networking. Building relationships with community foundations in your area will put your nonprofit on the radar of those who interact with local DAF account holders. If a DAF holder asks their community foundation or fund manager for advice on which nonprofits are doing good work on a certain issue, your organization might get a mention. Sometimes nonprofits are highlighted at events organized by fund managers and philanthropic networks, so the more people and organizations are aware of what you do, the more likely your nonprofit is to get the attention of DAF holders.



You may also want to check out:

- Is the growth of donor-advised funds a good or a bad thing?

