

Understanding Donor-Advised Funds: The Basics

What is a donor-advised fund (DAF)?

A donor-advised fund (DAF) is a philanthropic financial vehicle in which donors contribute money to an investment fund managed by a sponsoring organization. Donors can contribute cash and a wide range of non-cash assets, including stocks, shares of mutual funds, publicly traded securities, private assets, and crypto.

Donors can then recommend grants be made to charities of their choice using money from the fund.

How do DAFs work?

To open a donor-advised fund, a donor typically must contribute between \$5,000 and \$25,000. The DAF's sponsoring organization then actively manages and invests the funds, providing tax-free growth.

The donor also receives an immediate tax deduction upon contributing to the fund. Later, when the donor decides to donate using the fund, they'll recommend a charity to the sponsoring organization, which will then disburse the gift as a grant.

There are no limits to the contributions and grants that donors can make, and they can even set up recurring grants to their favorite nonprofits—Fidelity Charitable found that nearly 80% of DAF grants are not a donor's first gift to a nonprofit.

What are the types of DAF sponsoring organizations?

There are three primary types of DAF sponsoring organizations:

- **Community foundations** — independent charitable foundations created for the benefit of residents of a specific area
- **National DAFs** — charitable arms of financial services providers, like Fidelity or Schwab
- **Single-issue organizations** — institutions that create DAF programs to support a specific identity, faith, or cause

Community foundations and single-issue organizations have offered and managed DAFs for many years. National DAFs are relative newcomers that have contributed to the explosive rise of this type of giving.

Why do donors use DAFs?

DAFs provide donors with a flexible way to give to causes they care about and a tax-savvy method for setting aside money specifically for that purpose.

Donor-advised funds have significantly increased in popularity with donors in recent years, consistently setting record highs in the total value of contributions, the value of grants made, and the number of individual DAF accounts. More donors are turning to DAFs each year as a smart way to manage their giving habits.

If you have a donor advised fund, consider a gift to the Pennsylvania Parks and Forests Foundation. If you are interested in starting a donor advised fund, talk to your accountant or financial planner.

Donor-advised funds (DAFs)

A Tool for Supporting the Work of the Pennsylvania Parks and Forests Foundation

Source: Adapted from Freewill.com

Donor-advised funds (DAFs) have quickly become one of the most active charitable giving vehicles in philanthropy.

They've grown significantly in recent years, consistently hitting record highs across all metrics—in 2022, those records were \$85.53 billion in donor contributions and \$52.16 billion in grants to nonprofits ([Nonprofit Philanthropic Trust's 2023 DAF Report](#)).

To put this explosive growth into context—grants from DAFs back in 2012 totaled \$8.52 billion, **meaning payouts to nonprofits have more than sextupled in a decade**. This is truly unprecedented growth in the philanthropy landscape.