Donor Advised Funds - Where Do They Stand?

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Take-Away: A recent study on donor advised funds may give some in Congress something to think about before it tries to curb perceived 'abuses' of donor advised funds.

Background: Recently published was the 2024 National Study on Donor Advised Funds that focused on the period 2014 to 2022. This report is an extensive independent study on donor advised funds (DAFs) which consists of 111 DAF's that voluntarily provided data from more than 50,000 DAFs, with over 600,000 contributions, and 2.25 million 'outbound' DAF grants. What is most interesting is that much of the data gathered from the Study seems to contradict some of the concerns of some in Congress, as reflected in the 'stalled' Accelerating Charitable Efforts (ACE) Act which proposes many adverse changes to charities and charitable giving, and in particular distributions from DAFs. The ACE bill is still floating around Congress, but it is unlikely to get any attention in this election year.

DAF Proposed Regulations: Most recently, last November the Department of Treasury and the IRS published Proposed Regulations that would, in effect, redefine DAFs. Public comments on those Proposed Regulations closed on February 15, 2024. Lord knows when we will get Final Regulations from Treasury. (Treasury seems to be a bit slow these days if the SECURE Acts are any indication of its urgency.) Perhaps the data and tentative conclusions from the National Study on Donor Advised Funds might eliminate the concern of some either in Congress or Treasury that DAFs somehow are abused by allowing an immediate income tax charitable deduction to the donor, but with no corresponding requirement for an immediate distribution from the DAF to public charities to assist them with their societal benefit.

National DAF Study Key Findings: With no importance to the manner presented, some key findings (or statistics) from the National Study are the following:

- Nearly half of all DAFs (49%) had total assets at the end of 2021 of less than $50,000.
- Only 7% of DAFs had balances of $1 million or more. Only 1% of DAFs have a balance over $10 million.
- 81% of DAFs were opened after 2010.
- 97% of DAFs were advised by individuals or families. Baby Boomers were 49% of all DAF advisors.
- National organizations only advised 3% of the DAFs in the study.
- 9% of the DAFs studied were 'endowed' DAFs. Apparently, national organization sponsors of DAFs do not offer 'endowed' DAFs, unlike community foundations.
- 92% of the DAFs have a succession plan after the original donor/founder dies.
- 30% of the DAFs designate the DAF sponsor or another nonprofit organization to receive the balance of the DAF funds on termination.
- 61% of the DAFs had multiple contributions into the DAF during the study period.
- One in nine DAFs had contributions every year of the study period.
- DAFs commonly receive contributions between $10,000 and $49,999.

- In the most recent three-year period (2020-2022), 78% of the DAFs made at least one grant.
- In an average year, nearly two-thirds of the DAFs (63%) made an 'outbound' grant.
- 36% of active DAFs disbursed yearly grants that ranged from $10,000 to $50,000.
- Fewer than 36% of the DAF grant-transactions were made anonymously.
- 59% of DAF grants were general operating grants as opposed to restricted grants (but restricted grants were often of much higher amount.)
- Only 32% of grant making occurs in the fourth quarter of the calendar year, but that quarter accounts for 57% of the funds contributed to DAFs.
- The median payout rate for all DAFs is 9%. The median payout rate, excluding inactive accounts, is 15%. The mean (average) payout rate for all DAFs is 18%.
- 22% of DAFs were 'inactive' or had a zero-payout rate for the three most recent years (2020-2022.)
- Almost half of the 'inactive' DAFs (45%) were opened in 2020 or later.
- 54% of DAFs granted out more than half of their original contribution within 3 years.
- 67% of DAFs did not make any grant within the same year that they opened. By year 3, however, 54% of these DAFs had granted out over 50% of its original contribution.
- Community Foundations have the highest percentage of Medium, Large and Very Large DAFs (31%, 9% and 1%.)
- Of national organization DAF programs (54%) were all Small in size.

- Religious Affiliated Organizations had a higher percentage (34%) of Very Small DAFs than other sponsor types.
- The Smallest DAFs were more likely ‘inactive’ than Large DAFs.
- About 31% of DAFs at religiously affiliated organization, and community foundations (35%), were opened in or before the 2000s, only 2% of DAFs at National Programs were opened in that period.

Conclusion: I’m not sure what this data reveals about DAFs, other than that they are highly popular, growing in numbers and the amounts held in them, and that more and more donors are taking a close look at them as a means of implementing their philanthropy. How those in Congress or at Treasury look at this National Study is something entirely different. If over half of the initial donation to the DAF is distributed within three years of that donation, do the perceived abuses those in Congress are truly worried about even exist?