Why Are Donor Advised Funds Popular

Quick-Take: There are several good reasons why more and more donors make good use of their donor advised funds (DAFs) despite unsupported concerns expressed by a few in Congress.

Background: Donor advised funds (DAFs) have become a regular topic of missives over the years. Despite some concerns in Congress that DAFs are abused by donors who 'warehouse' capital that will be distributed only many years after the donor claims a current charitable deduction for his/her contributions to a DAF, their popularity continues to grow. Contributions to DAFs grew from 2024 to 2025 by $10 billion. And despite Congressional concerns about 'warehousing' capital, about $1.00 out of $4.00 held in DAFs is paid out to charities each year, in contrast to 8.1% of grants made from private charitable foundation assets. While many questions still linger surrounding DAFs, including payouts, transparency, donor control, and dormant accounts, they continue to attract interest by those who wish to support charities. Some of the reasons for DAF popularity follow.

The Public's Perception of DAFs- Not Congress's: As noted above, the annual payout from DAFs is much larger than what many in Congress acknowledge to be the case. 25+% of DAF assets are distributed annually to operating charities, in contrast to grants of 8.1% of private charitable foundation assets. Three times as many assets are distributed to charities on a percentage-of-assets basis from DAFs compared to private foundations.

DAF Sponsor Distribution Policies Promote Giving: Despite the narrative coming out of Congress, many of the large DAF sponsors, e.g., Fidelity, Vanguard, National Philanthropic Trust, all have adopted policies that support the distribution of DAF assets, which in contrast to the unsupported claims that large DAF sponsors encourage DAFs to 'warehouse' contributions indefinitely. For example, the National Philanthropic Trust requires at least one $250 grant every 36 months from a DAF. While such a policy is not a substitute for active engagement by the donor, the policy does act as formal mechanism that forces the charitable dollars to keep 'moving.'

DAF's Expand Philanthropy Via Charitable Succession Planning: Most DAF sponsors encourage the donor to name successors to distribute funds from the DAF when the donor is unable to be engaged due to disability or death. However, this *default* plan is not the same thing as a thoughtful philanthropic succession plan. When a nonprofit receives a grant from a DAF, that creates an opportunity for the nonprofit to not only thank the donor and acknowledge the donor's gift under the Tax Code, but it opens the door for the nonprofit to ask about the long-term plan for the donor's DAF. In short, the nonprofit can legitimately initiate a stewardship conversation with the donor. Using the DAF as the source of charitable giving thus alerts the nonprofit to connect current the donor's gift with his/her family values and legacy planning and possibly identify possible future bequests.

The Solution to the Donor's Timing and Coordination Challenge: Many donors plan to make a charitable gift before the end of the current year but they do not yet know how to allocate their charitable dollars among potential charitable grantees, e.g., needs of the charities or the development of programs that may need to be financially supported. A DAF solves the donor's dilemma by enabling him/her to make the charitable gift when tax and planning timing is important, i.e., before December 31, but then later recommend grants from their DAF when the needs and supportable programs of the charities are better determined with more information available to a donor.

Complex Assets Liquidated- The DAF Charitable Aggregator: Contemplating a large liquidity transaction like the sale of a business, real estate, or appreciated non-cash assets is when a donor starts thinking about a large charitable contribution. The problem is that such a transaction often has a tight deadline and other complications, such as a skittish purchaser. While the donor could make fractional gifts of the business or non-cash asset to several charities prior to the transaction closing, the buyer might object to having to close with several different sellers, e.g., the selling donor and the fractional interests held by several operating charities with their own boards having to approve the terms of the sale. It is much easier to induce the buyer to work with a DAF, which functions in effect as a charitable aggregator, in the sales transaction. Consequently, the DAF allows the donor to contribute the assets to the DAF prior to the sale and then recommend grants from the DAF that holds its pro rata share of the net sales proceeds.

Conclusion: DAFs are accessible, flexible, tax-efficient, and practical for donors who want to organize their charitable capital before they have finalized all of their grantmaking decisions. More and more advisors feel comfortable recommending that their clients consider funding a DAF, not only for income tax purposes, but also because they are easy to understand and workable for complex asset giving and family philanthropy.

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