# The Growth and Utility of Donor Advised Funds

Clemens Pietzner 23 January 2018

Americans are generous -- more so than in any other country. Certainly, our tax law encourages giving, but the spirit of giving is deeply engrained into the psyche of our people. In 2016, (according to Giving USA), more than $390 billion was given to eligible charities, an increase of 2.7 percent over the previous year, with individual giving (including legacies) representing by far (80 percent) the largest source of giving. In that larger context, Donor Advised Funds (DAFs) represent the fastest growing sector/giving vehicle in the philanthropic arena. The 2016 Donor Advised Fund report published by NPT (data from over 1000 DAF sponsors) illustrates this growth (comparing 2015 to 2014 data):

- Grants from DAFs increased 16.99 percent to $14.5 billion
- Contributions to DAFs increased 11.4 percent to $22.6 billion
- Total charitable assets in DAFs grew 11.9 percent to $78.6 billion (compared to a 9.7 percent growth rate for private foundations with assets of $781.6 billion)
- The grant payout rate for DAFs was 20.79 percent in 2015

The growth rate in DAFs is indicative of their low cost, tax efficiency, and ease of use.

DAFs also face challenges. DAFs could be negatively impacted by some of the current administrations' tax reform proposals, including capping tax deductions and/or increases in the standard tax deduction. If the standard deduction is increased, this could effectively limit those who itemize their deductions, depleting the pool from about one-third of Americans to about five percent.

DAFs are also subject to market fluctuations, dictating to some extent the giving of appreciated and other stock. And finally, there is episodic debate on Capitol Hill regarding the perceived lack of payouts from DAFs as opposed to the required payouts of five percent from private foundations.

In this context of growth and utility, an increasing number of donors and also advisory professionals recognize the value of using a DAF for their or their client's giving, vis-a-vis making direct gifts to the charities of their choice:

- Assets can be donated and receive significant tax benefits at the time of the donation.
- Assets in a DAF can be used to maintain a steady, consistent level of giving even as income can fluctuate for individuals.
- Donors can "deposit" in strong earning years

knowing that later they will not be dipping into retirement or savings.

- Compared to DAFs, many charities do not have the capacity to receive more complex or multiple assets; making it easier for advisors to execute donor instructions.
- Donors may not wish to make a gift to a single charity in a year when they have a significant taxable event. A DAF allows the full deductions from one source when needed, while providing the capacity to "spread out" gifts.
- DAFs can be used to teach philanthropy to younger family members (also in conjunction with a family foundation) and honor a parent's/family legacy.
- DAFs are easy to establish, easy to use, are cost effective, simplify giving and tax reporting and give donors access to the history of their giving, avoiding duplication.
- Using a DAF allows donors to more easily decline the volume of solicitations that they may receive.

These and other reasons are instrumental in the growth of DAFs. At the Triskeles Foundation we see daily the efficiency of our DAF and we seek to make it even more accessible and easy to use for our donors. We recognize that we are a part of a much larger giving movement and that our "differentiators" are even more important: aligning ESG/Impact investments with donor interests, great flexibility and customization, relatively low costs and minimums, and easy access to staff and service. It is our intention to continue to make Triskeles Foundation’s DAF a model of innovation in the country and we are grateful for our work with our donor community and many partners.