

# Advantages & Disadvantages of a Donor Advised Fund

As Donor Advised Funds (DAFs) are becoming a more popular vehicle for contributions, it is important to understand why the option is alluring to donors as well as where people have identified potential drawbacks.

## Advantages

- Rather small minimum amounts are required to open a DAF and an immediate charitable tax deduction of the gift amount can be taken.
- The donor is involved in all decision making.
- They have exploded in growth and are more easily available to donors.
- They are a fast and easy way to make significant gifts. The sponsoring organizations understand the mechanics of giving appreciated assets and have developed an easy process for giving.
- Overhead costs of sponsoring organizations are relatively low.
- Some DAF donors are more receptive to giving charitable gifts because the gift has already been made to the DAF and does not affect monies needed for other things.
- They help to establish a legacy of philanthropy for heirs.
- They may grow depending on investment performance.
- The sponsoring organization often provides services to the donor such as research about nonprofit organizations to whom they may give.
- During economic downturns DAFs are still available to contribute to nonprofit organizations.
- Donors can remain anonymous.

## Disadvantages

- There are no payout rules governing the minimum amount to be granted each year from a DAF. Because the donor has already taken a tax deduction, he/she may be very slow to make allocations to worthy and needy nonprofits. Some allocations are very small.
- The donor pays ongoing fees to the sponsoring organization.
- Many financial advisors and investors are not familiar with Donor Advised Funds and the subject does not get explored.
- Identification of donors who have DAFs and may be willing to support a nonprofit's mission is not easy for nonprofits, which makes appropriate and personalized solicitation and



cultivation of those donors more difficult.

- The donor may not have ultimate control over grant making of the funds. The donor recommends an organization to receive funds, but the sponsoring organization has final say over the distribution.
- Some sponsoring organizations do not offer a choice of investment vehicles for the DAF. The donor must use the system the sponsoring organization provides.
- Some sponsoring organizations allow grants to local organizations only, thus eliminating nonprofits that are based outside the allowed geographic area.
- There are many decisions to make when setting up a Donor Advised Fund and donors must become knowledgeable about the sponsoring organization's policies before it is set up.
- Donors can choose to find out very little about the organizations they wish to fund, the needs of a community and the needs of an organization, thus deferring to the sponsoring organization's recommendations or not granting many funds at all.

