

DONOR-ADVISED FUNDS:

**A TOOL FOR
REDISTRIBUTION**

OR

**A VEHICLE FOR
WEALTH HOARDING?**

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**resource
generation**

A Brief History of Donor-Advised Funds (adapted from [Justice Funders](#) and [The Signatry](#))

In 1931, the first Donor-Advised Fund (DAF) was launched at the New York Community Trust. The DAF model was supported and sustained by John D. Rockefeller Jr. to allow individual donors to support causes they were passionate about, as opposed to giving through foundations that retained power over granting decisions. From their inception, DAFs were structured as a way to evade collective decision-making around charitable dollars, instead prioritizing the whims of individual donors.

Like other tax-deductible charitable giving vehicles, DAFs were also created to be a tax loophole for the wealthy. DAFs offered wealthy donors a greater tax deduction for their donations, and enabled them to write off both cash and investments when putting them into a DAF, as well as avoid capital gains taxes on sold investments.

In 1992, the Fidelity Charitable Gift Fund was created. This marked the entry of financial service companies into the charitable giving marketplace. Fidelity quickly became the largest provider of DAFs, and within ten years, DAFs emerged as the second most popular charitable giving vehicle. As a result of this shift from community foundations as the main DAF provider to financial service companies, resources were diverted from community foundations, and donors grew more distant from communities. Unlike community foundations, these funds do not require local boards or relationships and have an even higher degree of anonymity for donors.

A note on terminology:

- A **DAF holder** is an individual who puts their money into a DAF.
- A **DAF provider** is the organization or entity that oversees the DAF and issues the donations. All DAFs are under the auspices of a DAF provider.

DAF Structures that Uphold Wealth Hoarding and Capitalist Control

For many, DAFs have been used as a vehicle for wealth hoarding and virtue signaling while retaining all control over decisions about where philanthropic dollars go. We have identified three of the most common patterns that inhibit redistribution:

1. Immediate Tax Deduction Incentivizes DAF Creation, Not Redistribution

When an individual creates a DAF, they enjoy an immediate tax deduction. This deduction incentivizes DAF creation for those looking to lessen their tax burden, but does not necessarily promote the redistribution of funds. While providing an immediate benefit to the DAF holder, the nature and timing of this tax deduction can create an unending limbo for these charitable dollars.

2. Donation Detour: Parking Money in a DAF for Years, Decades, Generations

Unlike foundations (which have a woefully low minimum payout of 5% per year), DAFs do not have a minimum payout required by law. Donors are free to let their DAFs sit and grow for as long as they like. [With over \\$234 billion sitting in DAFs in 2021](#), it is imperative that we act swiftly to redistribute these funds to social justice movements.

3. Hidden Figures: Lack of Transparency about DAF Contributions

A common complaint among nonprofit organizations receiving DAF contributions is that they cannot ascertain the identity of the donor. When giving through a DAF, the donor's name is not necessarily shared with the receiving organization. As a result, nonprofit organizations struggle to understand who to acknowledge for the gift, why the donor chose to give to their organization, and how to build a longstanding relationship with the donor. RG believes that donors should act in solidarity with social justice movements by contributing not only money but time, knowledge, skills, and access. When donors remain anonymous, it is impossible for them to build solidarity with organizations and movements. The anonymity of DAF holders has also enabled [the distribution of funds to organizations promoting hate and oppression](#) without consequence or question. DAFs have allowed major right-wing donors to obscure their funding of Islamophobic, anti-LGBTQ, and white supremacist organizations.

Perspective from an RG Partner:

“As in most organizations, we try to meet with every major donor at least once a year. We have a handful of donors who say ‘I don't need a meeting, don't want to take up your time, I'll just keep sending my check.’ On the one hand, they are being respectful of our time and resources and we really appreciate that... But on the other hand, the purpose of these meetings (for us, at least) isn't just to ask you to give again/more. It's also to deepen the relationship, which is truly, authentically important to us. So it kinda bums us out when we don't get to do that. But we would really love to have the chance to get to know you better and let you get to know us better. Cheesy but true.”

Advantages of a DAF for the Purposes of Redistribution

- 1. DAFs can keep you committed to your redistribution goals.** When you've decided on the amount of money that you want to redistribute to domestic 501(c)(3) nonprofits, you can move that money into a DAF. Once you've decided to commit a certain amount of money to the DAF, you cannot withdraw those funds for your own purposes; they are locked into giving.
- 2. DAFs can help keep you organized.** Using a DAF to redistribute can simplify your record keeping, as all of your giving to domestic 501c(3) nonprofits will be kept in one place. Your DAF provider will send you tax paperwork and an annual summary of all of your giving.
- 3. DAFs can help you to get money out the door faster.** Many RG members who use DAFs report that they appreciate them for their ease of use. Once you decide to give, you inform your DAF provider of the amount and the intended recipient - sometimes through an online portal - and they will do the rest.
- 4. DAF fees give you an additional opportunity to support a social justice funder you are currently funding.** If you have selected a values-aligned DAF provider that you feel committed to, then your fees go towards supporting that organization. And if

you want to redistribute funds in your DAF to your DAF provider, they can easily do that too.

5. **DAF donations may be easier to process and preferable for beneficiary organizations.** Many people make donations through credit cards, which means the receiving organization has to pay a 4% processing fee. DAF donations are made through checks, allowing organizations to keep the entirety of the funds.
6. **DAFs can be an easy way to redistribute gift stocks.** If you are receiving stocks from a family member, it is convenient for them to put those stocks directly into your DAF for you to then redistribute.

Perspective from an RG member with a DAF:

Setting up a DAF allowed for an easy way to sell and then redistribute stock gifts to organizations that align with my values. I redistribute my DAF every year. I set up my donor-advised fund at the local community foundation.... Not only do I appreciate the work they are doing as a local foundation, but it has also allowed me to build relationships with the staff there. I like having a DAF because I can easily login to their online portal and submit donation requests and it's an easy way to track all my donations and the organizations' contact information. I also give through my personal donation checking account so I don't do all of my giving through the DAF. I would definitely recommend DAFs to RG members especially if it works with the way that you are accessing/receiving resources through family or whatever source. They are not perfect, but for me, they have helped to increase the amount that I redistribute every year, and have helped me to further connect with my family's philanthropy and support a local community foundation.

Your Own DAF / Creating a DAF

If have your own Donor-Advised Fund or are considering opening one, Resource Generation recommends the following:

1. RELEASE CONTROL

Upon contributing money to the Donor-Advised Fund, recognize that the money in that fund should not be considered part of your net assets (you can't get that money back!), but rather as resources you have earmarked for swift and intentional redistribution. In making this shift, we oppose the tendency to hold onto control, and acknowledge the priority for DAF assets to be redistributed.

2. PURSUE VALUES-ALIGNED STEWARDSHIP

Consider where your DAF is or will be housed. Most DAFs are held by major financial institutions that are not aligned with social justice values, often [platform organizations that further systemic oppression](#), and focus on growing assets through Wall Street investments. Although fees may be higher, DAF providers with values alignment will enable you to support frontline movements as opposed to mainstream financial institutions. These providers may also offer community learning opportunities or donor advisors who can identify values-aligned organizations.

3. LOOK FOR A DAF PROVIDER WITH A MINIMUM PAYOUT REQUIREMENT

Many aligned DAF provider organizations have their own DAF spend-down requirements to ensure the effective distribution of resources. Organizations listed in the resources section below will support donors with values-aligned giving, and have spend-down requirements. Since there is no legal requirement for DAF payout, these policies are very important. If the organization you're in conversation with has no such policy, engage with them about starting one!

4. MAKE A PLAN & HOLD YOURSELF ACCOUNTABLE

You may want to wait to open a DAF until you have created a comprehensive and holistic redistribution plan, perhaps with a [radical financial advisor](#). Make sure you know how much you want to be redistributing through interpersonal giving, electoral justice work, taxation, and international grassroots movements. Ensure that the amount you put into the DAF is in accordance with these goals. Then, be

sure to set a clear, specific timeline to spend down your DAF, and give boldly. Remember that once the funds are in the DAF, unless your funds are held by an organization with a payout requirement, there is *nothing* ensuring that the money goes out the door. Hold yourself accountable through your RG community, cross-class accountability relationships, and/or a radical financial advisor.

5. CONSIDER YOUR INVESTMENTS

Understand how the assets in your DAF are currently invested. As with all investments, we recommend heeding the [Transformative Investment Principles](#) call to pull money off of Wall Street and invest in community wealth building. However, since a DAF is not intended to be an investment, you should prioritize the expeditious distribution of your DAF to movement organizations, rather than letting it grow within a values-aligned investment.

6. BUILD RELATIONSHIPS & SOLIDARITY

When distributing funds from your DAF, make sure to build relationships with the organizations you give to and make yourself known to them. Send an email before your contribution with the name of your DAF to alert the organization to the incoming funds.

Perspective of an Operations professional who processes DAFs for a movement nonprofit:

“In social justice organizations, not all departments have the opportunity to interface with donors. Operations staff, though important to the organization, miss out on the opportunity to build relationships with and know donors. Incoming donations may be all we know of them, so send DAF contributions with contact information to allow us to not only update your accounts with donation records, but to make it easier for us to do our jobs and feel more connected to donors.”

DAF Limitations and Considerations

DAFs are one tool in your redistribution toolbox, but their limitations mean they should be used alongside other strategies for giving. RG recommends you consider these before creating your own DAF:

- 1. Funds in a DAF cannot be given to individuals.** Interpersonal cross-class giving and mutual aid are critical elements of liberation work and should be considered important elements of any individual redistribution plan. RG encourages its members to ensure enough funds remain outside of their DAFs in order to participate in local/national mutual aid networks as well as direct giving to individuals. Check out RG's [Interpersonal Giving Guide](#) to learn more.
- 2. DAF money cannot be sent directly to international organizations.** DAF rules state that funds can only be transferred to 501(c)(3) organizations within the United States. International giving to support social justice movements around the world is another critical part of a redistribution plan. However, DAF funds can be used for a values-aligned domestic intermediary that funds grassroots and social justice movement work outside of the US, including RG's partners Grassroots International and Thousand Currents, among others.
- 3. DAF money cannot be used for political giving.** Because DAF funds can only go to 501(c)(3) organizations, donors should consider whether supporting local and national candidates, funding organizations that legally operate as 501(c)(4)s, or contributing to electoral justice work (including the electoral work of RG's national partners the Center for Popular Democracy and the Movement for Black Lives), is part of their redistribution plan and organize their funds accordingly.
- 4. Although it happens rarely, a DAF provider is technically not mandated to transfer the funds where you advise them to go.** There are recorded instances of DAF providers refusing to send money where the donor requested. Putting money in a DAF ultimately removes a layer of control that you previously had with your giving. Before you open a DAF, have a conversation with the potential DAF provider to ensure that there is sufficient values-alignment between you.

5. **DAFs are often used as a tax loophole** (see box). DAFs were designed to provide a tax benefit to wealthy people for the purposes of philanthropy. By opening a DAF, you will also be taking advantage of this benefit. You may consider maximizing your dollars for giving to frontline movements as worthwhile enough to avoid taxes. You may also consider taxation as one method of systemic redistribution, although your tax dollars will also be going to things that are not values-aligned (the military-industrial complex among others). We encourage you to consider your tax burden carefully as you plan your giving (which may include ensuring that you do not place all your philanthropic dollars in a DAF), that you consider taxation as one part of a holistic redistribution plan, and that you also join the collective fight for higher taxes and [give to organizations working towards structural tax reform](#).

Taxation: An Imperfect System of Wealth Redistribution

If you are seeking to move funds that are currently invested, the DAF structure may be appealing because it is a tax-free way to redistribute, and will preserve every dollar so they go directly to causes for social and racial justice. **It is important to remember that these tax loopholes were designed to benefit the wealthy.**

Taxation undoubtedly directs your money to entities that are antithetical to your values, including the police and the military, in ways that perpetuate white supremacy and colonialism. AND, taxation is currently the most democratic system for wealth redistribution that we have. This system is significantly compromised because of the myriad ways that government, financial, and cultural systems enable wealthy people to circumvent taxation. In the absence of progressive tax reforms and legal structures that hold the wealthy accountable, the DAF structure presents donors focused on redistribution with this choice: reject all tax loopholes for the rich as unethical, or use them in order to maximize money going directly to frontline grassroots movements, led by BIPOC and working-class communities.

DAF Family Organizing

In the case that your family has a Donor-Advised Fund, this guidance can be useful in organizing family members toward the effective and ethical redistribution of the DAF.

1. ASK QUESTIONS

- Where is the DAF currently housed?
- What are the current assets sitting in the DAF? How long have they been there? What has been the distribution rate over the DAF lifetime? Is there an annual target for what percentage of the DAF funds are distributed to eligible organizations?
- What past giving has been done through the DAF? What are the giving priorities for the DAF?
- Is the money in the DAF currently invested? If so, where?

2. ORIENT TO THE CHALLENGES & POTENTIAL SOLUTIONS

- If the DAF is held at a major financial institution or otherwise unaligned institution, encourage family members to consider aligned DAF providers (see below for a partial list of aligned DAF sponsors).
- Once you are aware of any giving priorities for the DAF, work with RG and other social justice communities to identify movement-aligned giving opportunities.
- If your family's DAF is currently invested and you are unable to achieve full alignment with the Transformative Investment Principles at this time, speak with your family about the importance of keeping "risk" low and funds highly liquid in order to maintain a shorter timeline for fund distribution, rather than growing the DAF for years. Even if the DAF provider you use invests in line with the Transformative Investment Principles, remember that funds in a DAF should not be thought of as an investment in the solidarity economy. Money in a DAF should be redistributed to frontline movements as soon as possible.
- If your family has not been actively redistributing their DAF or letting the funds sit, familiarize yourself with existing campaigns to advocate for DAF spend down and share your learnings with your family (see below for more resources).

- If you are connected to a family foundation, check to see whether the foundation ever puts funds into DAFs as a way of meeting the 5% minimum payout, thus circumventing the payout requirement without actually distributing any money directly to social justice movements.

Do you have a family foundation? Don't move money from family foundations to DAFs in order to evade the 5% annual minimum payout required of private foundations. Learn more here: [ICYMI: Wealthy Use Loophole to Reap Tax Breaks – And Delay Giving Away Money](#)

DAF Calls to Action

We encourage you to participate in campaigns and initiatives that are fighting to reduce wealth hoarding and hasten the speedy redistribution of funds that are sitting in DAFs.

- The [Initiative to Accelerate Charitable Giving](#), a member network of foundations, nonprofits, and philanthropists, is advocating in Congress for the Accelerate Charitable Efforts (ACE) Act which contains a number of critical DAF reforms, including a policy that would make tax benefits contingent upon the total payout of the DAF within a 15-year span. The ACE Act would also prevent foundations from parking their money in DAFs as a way to meet the 5% minimum payout requirement.
- The [#HalfMyDAF campaign](#) is incentivizing the redistribution of money in DAFs through a matching donation program.
- Amalgamated Foundation runs a campaign called [Hate Is Not Charitable](#), where they draw attention to the ways that DAFs are used to fund hate groups, and issue calls to action to DAF holders and DAF providers.

A partial list of DAF providers with spend down requirements:

[North Star Fund](#)

North Star Fund is partnered with the Amalgamated Charitable Foundation, and uses their donor-advised fund platform. DAF holders are supported by Amalgamated and North Star Fund's financial expertise and commitment to social change. They offer an expanded pool of investment options that invest funds in a vehicle consistent with donor values. In 2018, North Star's DAF grantmaking ranged from \$2,500 to \$1.4 million.

Payout Requirements:

Grants must be made within three years.

[Amalgamated Foundation](#)

Amalgamated Foundation offers DAFs in the form of Advance Change Funds which fuel progress and move money to the frontlines of social change.

Amalgamated conducts due diligence to confirm that recipient organizations meet the Hate is Not Charitable screen for hate groups.

Payout Requirements:

[10% Giving Pledge](#)

[Seeding Justice](#)

Seeding Justice created their Donor-in-Movement Funds (DMF) as an alternative to traditional DAFs, and are set up for donors who want to use their wealth to advance social justice movements but don't want to participate in an extractive, wealth-centered DAF system. The DMFs are used to make actionable and long-lasting change within Oregon's social justice movements, and built to spend down donations, not hold them in perpetuity.

Payout Requirements:

50% of DMF is allocated to Seeding Justice Grantmaking, 40% distributed to groups of the donor's choosing in alignment with SJ values, and 10% to SJ operations

Contact your local community foundation to learn about their DAF options. These foundations may not have minimum spend down requirements, so we encourage you to maintain rigor around the distribution of DAF funds if you pursue this option.