How Clients Are Funding Their Donor-Advised Fund Philanthropy: 61% of Contributions Are Non-Cash Assets

By Eileen R. Heisman
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A new report from National Philanthropic Trust (NPT) highlights that more than half of contributions to its donor-advised funds (DAFs) come from non-cash assets. The five-year annual average shows that among three types of asset classes—cash, publicly traded securities, and complex assets—39 percent of contributions were cash. This data affirms a trend we have observed in the nonprofit sector for several years: Donors are looking beyond their checking accounts to reach their charitable giving goals.

WHAT IS A DAF?

Donor-advised funds (DAFs) are a popular charitable giving vehicle that allow donors to make irrevocable contributions, receive an immediate tax benefit, and recommend grants right away or over time. Donors also can recommend an investment strategy for the DAF assets, which grow tax-free. Donors increasingly are using DAFs for both individual and family philanthropy. DAFs are the fastest-growing charitable giving vehicle in the United States, outnumbering private foundations by more than 10:1. Like private foundations, DAFs are a significant source of funding for charitable organizations.

DAFs are established at public charities, also called DAF sponsors. DAF sponsors can be national charities such as NPT, a local community foundation, or an issue-specific charity such as a place of worship, university, or hospital. After contributing assets, donors can begin recommending grants from the DAF to qualified charitable organizations immediately or over time. Donors also can recommend an investment strategy for the DAF assets, which grow tax-free.

HOW DONORS FUND THEIR PHILANTHROPY

Sector-wide, the number of DAFs has increased nearly 250 percent during fiscal years 2017–2021 with a 17-percent compound annual growth rate in contributions during the same period (see figure 1). NPT has experienced a similar growth trajectory.

In three of those years, non-cash assets have been the majority asset type for contributions to NPT DAFs. The five-year annual average of contributions by asset type shows that publicly traded securities are the most popular, followed...
by cash, then complex assets (see figure 2).  

The assets that donors choose to give often are dependent on financial market conditions. In years when the stock market is strong, donors tend to give more publicly traded securities. When there is more market volatility, we see more gifts of cash.

Consider the following: A donor wants to liquidate $100,000 of a technology stock for charitable purposes. The stock was purchased 10 years ago for $50,000. If the donor were to sell this asset prior to donation, the donor would owe roughly $11,900 in tax on the $50,000 in capital gains (assuming a 20-percent capital gains tax rate and a 3.8-percent Medicaid surcharge). By donating the stock directly to a DAF, the donor may avoid capital gains tax and preserve the full value of the asset—all $100,000—for charitable giving.

Typically, a donation of complex assets is dependent on individual circumstances such as selling a business, retiring, or receiving an inheritance. Take a common example for donating complex assets: A corporate founder wants to be philanthropic. The founder can donate shares of the privately held company—which often has a $0 cost basis—and reduce a future capital gains liability whenever the founder wishes to sell the shares.

The assets that donors contribute may shift from year to year, but grantmaking from DAFs to charities is remarkably consistent—more than 20 percent annually. These donors have a ready reserve of philanthropic dollars to grant sustainably across economic cycles.

**SHOULD YOUR CLIENTS DONATE COMPLEX ASSETS?**

Complex assets—non-cash and non-publicly traded securities—can be hugely impactful for donors and charities alike. In recent years, NPT has accepted interests in privately held companies, hedge fund and private equity fund interests, collections, real estate, and restricted securities. We work with donors and their advisors to turn these types of assets into critical funding for the donors’ favorite charitable organizations and causes. For example, we accepted an important piece of modernist art. Working with the donors’ advisors, an auction house, and the donors’ focused philanthropic goals, that single asset turned into multi-year grants that support various women’s issues and animal welfare charities.

Not surprisingly, donating complex assets can be a complex process. The following are important questions that advisors can ask in order to assess whether clients should consider donating complex assets:

**Are my clients philanthropic?** A simple but important question. The primary motivation for any donor to make a charitable gift—whether to a charitable giving vehicle like a DAF or directly to a charity—always should be because they want to be philanthropic. Every contribution to a DAF is irrevocable and must be used for charitable purposes. Nearly 90 percent of high-net-worth households give to charity. Ongoing conversations with clients about their philanthropic goals deepen the relationships and provide insight for efficient and tax-wise wealth strategies.

**Do my clients have appreciated non-cash assets?** Appreciated assets can create significant tax liabilities when donors sell them. Such assets, therefore, are often the most tax-advantageous asset to donate because donation allows donors to avoid paying capital gains tax. This is true for publicly traded securities as well as complex assets. Donors can contribute long-term appreciated securities to charity in two ways: They can sell them and donate the proceeds, or they can contribute the securities directly.

Many donors don’t consider this second strategy because not all charities are equipped to accept non-cash assets. A DAF enables the donor to make a direct contribution of securities and reduce tax liability. The full value of the asset is reflected in the DAF balance, making more available to grant out to charity.

**Should my clients consider simplifying their estates?** Some complex assets are too cumbersome, tax-inefficient, or simply undesirable to bequeath to the next generation. In a study of wealthy collectors, 81 percent planned to pass their collections on to their children, but only one-third (35 percent) of children want to inherit them. Using a DAF can help donors align their family values with their philanthropic goals and may simplify their estate administration. Further, many DAF sponsors allow donors to appoint additional advisors and successors, making the DAF a multigenerational giving vehicle.

**HOW TO HELP YOUR CLIENTS DONATE COMPLEX ASSETS**

If your clients have complex assets that they wish to donate, the following are a few things you can do to help ensure a smooth contribution.

**Be clear on the details.** The DAF sponsor will perform thorough due diligence to understand the complexity and timing of the gift, including details about how to liquidate the asset, tax implications for the donor and the DAF sponsor (such as unrelated business income tax), restrictions on the asset, and any other legal or tax issues.

**Be mindful of timing.** Complex assets take the longest to convert to charitable DAF funding. Between the due diligence period and the liquidation process, it can take several weeks or months to turn a complex asset contribution into DAF assets for grantmaking. If the year-end tax deduction or a liquidity event is driving the timing, encourage donors to start the process early.

**Be prepared to hear “no.”** Not all charities are willing to take complex assets. They may not have the experience or
RESTRICTED STOCK*
A donor founded and was part of the control group of an athleisurewear company and wanted to use some shares of the company to support nutrition programs in local schools. NPT did due diligence to confirm all relevant details of share acquisition, transferability, holding periods, and ownership restrictions. NPT, the donor, and advisors worked together to facilitate the contribution of the shares during an open trading window for the donor and liquidated the shares immediately upon receipt. The donor used the proceeds to recommend grants to fund the school nutrition programs, which the donor has continued to support for several years while also expanding grantmaking from the DAF.

A MILITARY TANK**
A donor wanted to turn an historic military tank into philanthropic support. Although the tank was an impressive piece of American history, there was no obvious and cost-efficient way to liquidate it. Instead, we encouraged the donor to donate it directly to a military museum where it would be appreciated and also would afford the donor the most advantageous tax deduction because of its “related use” to the museum’s mission.

*This is an example of a complex asset that NPT accepted.
**This is an example of a complex asset that NPT declined.

Charitable organizations provide critical services and leadership in all our communities. DAF donors actively support local and international charities. Grants from all DAFs in the United States totaled more than $30 billion in 2021, doubling in the past five years. At NPT, grants skyrocketed more than 700 percent in the same period. Increasingly, donors are funding those grants with complex assets—a trend we expect will continue.

Eileen R. Heisman is chief executive officer of National Philanthropic Trust, an independent public charity that manages donor-advised funds and provides philanthropic expertise to donors, foundations, and financial institutions. NPT annually publishes the “Donor-Advised Fund Report,” the sector’s authority on the state of DAF philanthropy. She earned a BA with honors in psychology from Carnegie Mellon University and an MSW with a major in social program evaluation from the University of Michigan. Learn more at nptrust.org.

ENDNOTES
3. Ibid.
4. In this report, we define the three asset types as follows:
   • Cash: Money in the form of checks, wires, and credit card payments
   • Publicly traded securities: Stocks, bonds, mutual funds, and other financial instruments that are listed and traded on public exchanges
   • Complex assets: All other assets that are non-cash and non-publicly traded securities including digital currencies, real and tangible property, and shares of privately held companies
8. See endnote 2.