THE FULCRUM POINT

DONOR ADVISED FUNDS (DAF) REGULATIONS NEEDED NOW

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The Fulcrum Point – An Opinion Series

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By Chris Looney

DAFs Are Hoarding Billions. It's Time to Mandate Charitable Action

Billions of charitable dollars are sitting idle—already donated, already deducted from taxable income, and yet nowhere near a nonprofit. At a time when food banks, shelters, clinics, and schools are stretched to their limits, a vast reservoir of philanthropic capital is accumulating in financial accounts—*untethered from urgency and untouched by regulation.*

These dollars reside in Donor Advised Funds (DAFs), a popular philanthropic tool that allows individuals to deposit assets into a managed fund, claim an immediate tax deduction, and later "advise" how and when the money is distributed to nonprofit organizations. It's flexible. It's streamlined. And it's *wildly unregulated.*

As of the most recent data, over $229 billion is parked in DAFs across the United States. That's $229 billion in funds that have already been designated for charitable purposes, with no legal requirement that they ever be distributed to actual charities. Unlike private foundations, which must disburse at least 5% of their assets annually, DAFs can sit untouched indefinitely—earning investment returns for banks and community foundations, but doing nothing to alleviate suffering or strengthen civil society.

And here's the uncomfortable truth: many of the institutions managing these funds have a financial incentive to keep them exactly where they are. Commercial financial firms and community foundations earn fees based on assets under management. The longer the money stays put, the more they earn. Nonprofits, meanwhile, are forced to beg, cut programs, or close entirely while funds meant for them accrue value in someone else's portfolio.

Defenders of the current system often point to a high average payout rate—about 22.5% annually. But that's an aggregate number, skewed by a subset of donors who give regularly. There is no requirement that any individual DAF actually makes a grant—ever. In effect, donors receive immediate tax benefits for what may be a perpetually deferred act of generosity.

Efforts to reform this system are already underway. The Accelerating Charitable Efforts (ACE) Act, a bipartisan bill introduced by Senators Angus King and Chuck Grassley, proposes long-overdue accountability for DAFs, including timelines for distributions and greater transparency. But the bill has been stalled in Congress—smothered by powerful lobbying from financial services firms and community foundations that benefit from the status quo.

This is not just a policy debate. It is a moral one. In the face of growing social and economic need, we must ask: *What is the purpose of philanthropy?* If the goal is to help people and solve problems, we must ensure charitable dollars actually reach the organizations doing the work.

Here's what needs to change:

🔧 Three Core Reforms for Donor Advised Funds

1. **Mandated Distribution Timeline**
   - Require DAFs to disburse each donation within 12 months of receipt. This ensures that funds don't languish indefinitely and that charities benefit from timely support.
2. **Tax Deduction Alignment**
   - Align the tax deduction with the year in which the donation is made to a charity, not just the DAF itself. Carry-over provisions can be permitted, but tax benefits should correspond with actual charitable impact.
3. **Enforceable Penalties for Inaction**
   - Impose financial penalties (paid from outside the DAF) when funds are not distributed on time. This creates real accountability without harming charitable assets.

DAFs were created to simplify and encourage giving—not to warehouse wealth under the banner of generosity. And while their structure has administrative benefits, their current use privileges tax planning over mission impact.

We need a philanthropic system that supports the nonprofit sector with the resources it has been promised—not one that withholds them behind walls of financial self-interest. **Nonprofits don't need "advised" funds. They need accessible funds. Active funds. Funds that do what they were intended to do: fuel the work of justice, compassion, and community.**

Twelve months. That's the window we should give for DAFs to fulfill their charitable promise.

If donors can decide which charity deserves their support, they can do it within a year. If Congress can recognize the problem, it can act with urgency. And if we believe that philanthropy should actually serve the public good, we can't let another $229 billion sit on the sidelines while so many communities are left behind.

Here are three strategic next steps nonprofit leaders can take to help drive reform of Donor Advised Funds (DAFs) and ensure charitable dollars actually reach the missions they were intended to support:

✅ 1. Mobilize Your Network Around Advocacy

Action:
Convene your board, major donors, and peer nonprofit leaders to educate them on the issue and build consensus around policy reform—especially the need for a 12-month distribution mandate.

How to do it:

- Host a webinar or roundtable on "Unlocking DAFs for Impact"
- Create a joint statement or letter of support for reform
- Encourage partner organizations to co-sign and share publicly

Goal: Create visible momentum and a unified voice within the nonprofit sector to counterbalance lobbying by financial firms.

✅ 2. Engage Policymakers and Philanthropic Media

Action:
Schedule meetings with local and federal representatives to advocate for DAF

regulation and express support for legislation like the ACE Act—or improved versions of it.

How to do it:

- Share real stories from your organization showing the impact of delayed funding
- Submit an op-ed or letter to the editor in sector publications (e.g., *Chronicle of Philanthropy*, *Nonprofit Quarterly*)
- Join existing advocacy coalitions such as the Initiative to Accelerate Charitable Giving

Goal: Apply pressure to elected officials and the public narrative to show that nonprofit leaders demand reform.

✅ 3. Empower Donors to Take Proactive Action

Action:
Educate donors with DAFs on how to be part of the solution and encourage them to recommend grants more regularly—ideally within 12 months of donation.

How to do it:

- Add a "DAF Awareness" section to donor communications or your website
- Create a pledge campaign like "Give Within a Year" for DAF donors
- Offer tools or prompts to make grantmaking easy and timely

Goal: Encourage voluntary action even before policy changes take effect—while reinforcing a culture of active generosity.

For more information about Fulcrum Nonprofit Leadership, please visit our website at www.fulcrumleader.com or reach out to us directly via email at hello@fulcrumleader.com.