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Philanthropic
Trust

Your partner in giving

Can I Use My DAF for That?



Unlocking the full potential of your donor-advised fund.

LISA BARR: Hey, Fernando, it's great to see you.

FERNANDO GONZALEZ: You too. I've been looking forward to this because I love talking about donor-advised funds to someone who's just as nerdy about them as I am.

LISA: Well, guilty as charged, I guess, but this is one of my favorite topics. OK? There are just so many misconceptions out there about what donor-advised funds can and can't do.

FERNANDO: Yeah, absolutely. When people think of donor-advised funds, what usually comes to mind is the convenience, the ease. So you make a contribution, you recommend some grants, support some great causes, and you're done. It's simple. That is true. DAFs are simple, but that simplicity has led to one of the most common misconceptions that we hear, which is that donor-advised funds are only for basic giving.

LISA: Yeah. I would say one of the biggest misconceptions about DAFs is that this money is just locked in a safe and thrown in the ocean, never to be seen again. You know, on average,

20% of a donor-advised fund is going out the door every year in the form of grants—a 20% payout rate, as sometimes you hear. And so, people are really using these vehicles actively to support organizations they care about all over the world.

FERNANDO: Yeah. And I think that what donor-advised funds have really provided is giving donors an opportunity to be very reactive in real time. And so, they can make a grant from their donor-advised fund when that charity's appealing to them. So, we're encouraging charities: please appeal to these donors, especially those who have donor-advised funds, because those funds are already set aside for a charitable purpose. So today we're actually gonna unpack some of what donor-advised funds can and can't be used for, and more importantly, how to make the most of one when you're trying to do something big or more complex in nature. So we'll also talk about what kinds of assets you can contribute, because a lot of people are surprised at what's even possible. And the range of assets that you can contribute can unlock some very impactful giving opportunities.

LISA: The thing that I love most about the work that you and I get to do every day is the idea of making philanthropy easy for people so that they do a lot of it. I know oftentimes I'm in the position where I'm working with someone who maybe is new to wealth, maybe they're selling a company for the very first time, and I know if I can make it an easy process for them to give this money away or to put some funds into a donor-advised fund to use over their future lifetime, I know that I'm setting someone up to become more and more generous over time, which is really exciting.

FERNANDO: Definitely. And I think that what it is doing is, it's exposing to people themselves how generous they are and can be and probably have always been. But now it's really helping them to put their money where their mouth is and, uh, really support the charities and causes they really want to.

LISA: All right, before we dive into more stories about grants, we need to hit pause. Let's back up.

FERNANDO: Yeah.

LISA: I wanna be sure that we lay out the basics. So, what can a DAF really be used for at its core? If you are recommending a grant to a public charity and it's for a charitable purpose, that grant is going to be approved. And who's on that approved list? Well, it's public charities for sure. It's certain supporting organizations, private operating foundations, and at NPT, even international charities can be approved. Let's flip this, though. What's off the table? What's not possible with a DAF grant? There's no supporting political campaigns or lobbying, certainly no making a grant earmarked for a

specific individual and no creating anything more than an incidental benefit for yourself.

FERNANDO: That's right. Let's spend a minute on that one—the incidental benefits. This is gonna raise the questions all the time.

LISA: Yeah. So this is a little complicated, but stay with me here. The IRS differentiates between what's called an "incidental benefit" and a benefit that's more than incidental. Examples of those incidental benefits would be your logo coffee mug, or your tote bag, or your calendar that the nonprofit is providing to you, maybe with their logo there. That is just an incidental benefit, but where the trouble comes in is when a donor might receive what's called a more than incidental benefit. That's like your access to a nonprofit gala or parking privileges at an event, or just early access to attend something. The IRS prohibits a donor from receiving anything that could be considered a more than incidental benefit.

FERNANDO: Got it. So that gala example comes up constantly. People think, well, I'm just paying for a ticket through my DAF, but you're—if you're sitting at the table, that's a benefit. So it's a no-go.

LISA: That's right. And at the gala, you know, all the same goes here for charity auctions. So if you're bidding on that weekend getaway or a piece of art, you are getting something of value that's disqualifying it as an acceptable use of your DAF. Now, you can underwrite the event, maybe you don't attend, or maybe you waive all those benefits. That's totally possible. If you're not taking any of those perks, it's usually fine. So an easy rule of thumb is: if it benefits you, it's not DAF eligible.

FERNANDO: All right. Let's actually have a little bit of fun with this. I'm gonna throw some scenarios at you and you will tell me: Yes, No, or It Depends. You ready?

LISA: Yeah. Okay, let's do it.

FERNANDO: So, you make a \$10,000 grant to your alma mater and get season tickets to the football games.

LISA: That's a no. Sorry—even to Oklahoma.

FERNANDO: Okay, Boomer Sooner. All right. You recommend a grant to a scholarship program and you're on the selection committee.

LISA: So that's like a maybe. You can be on the selection committee, but you can't have the majority of votes on the selection committee. And that scholarship also can never go to benefit one of your own family members.

FERNANDO: Hmm. Okay, you use your DAF to pay for a painting you won at a charity auction.

LISA: Yeah, that's a no, sorry.

FERNANDO: Okay. You make a grant to a museum and get sponsor-level membership with private tours and exhibit previews.

LISA: So that's too many benefits, unfortunately. If you could waive all those benefits, or if the membership is 100% tax deductible, then yes, you could use your DAF for that.

FERNANDO: Okay. So we talked about incidental benefits, but those aren't the only guardrails in place. There are a few others where we're getting some questions, so let's tackle some of the big ones. International

grants—people always ask: can you support a charity outside the U.S. with your DAF?

LISA: So yes, you can. But it's just not quite as simple as a domestic grant. There's some extra due diligence. NPT has to confirm that this charity abroad is equivalent to a U.S. charity. That's a type of vetting called Equivalency Determination. Another option is something called Expenditure Responsibility, where we could receive expenditure reports back from the charity, which we would submit to the IRS to help determine that all the expenditures of this grant are charitable in nature.

FERNANDO: All right. So, shifting gears—how about private foundations? Can you make a grant to a private foundation?

LISA: So, sometimes. It depends on what type of foundation it is. If we're talking about a private operating foundation, then yes, generally a DAF can make a grant. But if we're talking about a private non-operating foundation, which is kind of your average family foundation grant-making foundation, then that's a no.

FERNANDO: Okay. Next up we've got pledges. What if I've already made a personal pledge to a capital campaign? Can I use my DAF to fulfill that?

LISA: This is sometimes a surprising answer, but yes, you can—there's just a little bit of a catch. The grant can't reference the pledge. It can't provide you with a more than incidental benefit. There can be no mention of the pledge in the grant letter—nothing in the memo line. No recognition that links back to the pledge. But it is certainly possible to make a grant from your DAF to support a pledge.

FERNANDO: All right. Last one in the speed round. What if I want to support a brand-new nonprofit, like it just opened last year?

LISA: So that's a maybe. It's oftentimes a yes, but we just have to do a little bit more due diligence. We need to take a little closer look at that charity—but it's doable.

FERNANDO: Okay, so let's do a quick recap. International grants—yes, but with some oversight and patience. A private operating foundation—yes, but with limitations. Pledges—yes, but only if they stay off the record. New charities—possibly, but you should also expect some extra vetting there.

LISA: Yep. That's all exactly right.

FERNANDO: I would say one thing that's really helpful for any DAF donor to remember is that when they make that grant recommendation, there is going to be a due diligence process there. So when they hit that submit button, those funds are not flowing out right away. There's gonna be a couple of days where NPT is going to perform that due diligence. And that's really important these days. There have been a lot of charitable scams out there, and we want to make sure that the DAF grant is allowable by IRS standards. So just allow for a few days for the check to be sent, and then also for the funds to be received by the donor. Sometimes a donor will come to us expecting the funds to go out the next day, and that's just not the reality. So we want to remind people of that.

LISA: Yeah, I think likewise, when someone is making a contribution into their DAF, they might think that filling out a contribution agreement and sending it to NPT, that that has affected

the transfer of assets. And that is not the case. You'll have to work with your advisor to move those securities or call your bank and have a wire come to NPT. So, it's important to realize that it can be a two-step process, and you want to make sure to do both those steps.

FERNANDO: That's right.

LISA: Okay. Now that we've covered what you can't do with a DAF, there's plenty of nuance there, but let's return to what you can do—because there's so much. Honestly, that's where things really get interesting. So, let's circle back to something we said at the very top: that behind every DAF at NPT is a team of people that can help structure some really sophisticated giving, including creating customized legally binding grant agreements. To be clear, most grants from NPT are unrestricted, and that's a great thing. Unrestricted dollars to nonprofits—general operating support—that is giving nonprofits the flexibility to apply funding where it's needed. Most staff salaries, programs, operations, even emergencies. But some donors want to be more hands-on. Maybe the gift's large, maybe it's tied to a long-term initiative, or it involves some type of milestone or more. That's when a specialized grant agreement might come into play. NPT can draft a formal grant agreement that spells out things like reporting requirements; research findings; milestone or performance benchmarks; matching or challenge provisions to drum up further support for your giving; naming rights or recognition, like you wanna put your name on a building on the campus at your alma mater; and other usage restrictions. Anytime a donor wants to see some sort of clear result, that can be written into a grant agreement. Now, there is an

additional fee for these services, and it's paid directly from the DAF, but for transformational gifts, this can really be worth it.

FERNANDO: What I'd say about the work we do—and why I love it so much—is that I'm a recovering wealth advisor myself. I knew that I was incorporating philanthropy so much into my practice in speaking with clients about the causes they care about. But now I get to do it every single day, supporting both donors and the advisors themselves as they're walking through these conversations. It's really rewarding to watch these “aha” moments happen on a regular basis, when people are realizing their wealth can be really impactful. And obviously, we know that donors will sometimes have very good intentions, but not exactly where to start or maybe how to structure their giving. At NPT, we have a robust Philanthropic Solutions team that has been really involved with some of our donors to help them hone in on those very questions: trying to understand exactly what the donor's mission, vision, and values are—and trying to employ that through their donor-advised fund. We had a donor that came to us that was looking specifically to fund women's educational causes throughout Africa. And again, they weren't quite sure where to begin. It was a mother and daughter. And they came to us and said, “we would really like to engage your team to build out some ideas for us of specific charities focusing on particular geographies, as well as different issue areas in women's education. And they really came away with some really great ideas that they've now employed through their donor-advised fund. They're now back because they'd like to start looking more broadly on the international stage

at these same causes. It's really exciting to see that piece get implemented as well as these conversations that are had. But the team can go anywhere from very basic sector scans and field scans and so on to some very deep dive strategic conversations. And again, that's fee-for-service, and dependent upon how much of a lift that is, it can be fairly inexpensive to fairly broad, as far as what the cost could be.

LISA: Yeah, it's really amazing what our Philanthropic Solutions team can accomplish. And of course, these fee-for-service opportunities that are really bespoke, that are really meeting a donor right where they are—those can be so powerful for those donors. But our team also does a lot of great work that is available to all of our donors. In the event of some natural disasters that might occur throughout the world, they're super quick to research great organizations on the ground where donors can recommend grants and get that money flowing for relief. We also see a lot of resources made available on our website for donors to use—to be thinking about how to use their DAF, how to structure their giving, how to get their family involved in giving—some really wonderful thought leadership pieces that our team brings together, years and years of incredible experience they have in the philanthropic space, to make some wonderful content available to all our donors.

FERNANDO: That's right.

LISA: Okay. So far, we've focused a lot on what comes out of a DAF—that's grants, that's charitable impact, all that kind of stuff. But let's now flip it. Let's talk about what can go into a donor-advised fund.

FERNANDO: Let's do that. So: people usually donate cash and public securities. We know that. That's just what we've been doing for a very long time. That's the classic route. But the list of eligible contributions is a lot longer than that. We were hoping in this conversation to kind of open up the balance sheet here a little bit. At NPT, we've accepted all kinds of assets. Beyond the basics like stocks and mutual funds, we've seen restricted or closely held stock. We've had private business interests, private equity or hedge fund stakes, cryptocurrency, real estate—even art and collectibles, you name it. Now, to be fair, each comes with its own process. So there's due diligence involved, and not everything makes it past the finish line. But we've worked with donors on all kinds of complex contributions—family business shares, Bitcoin, land.

LISA: Yeah. And a big upside there is the tax efficiency. It can be huge. Donors can avoid capital gains taxes, and still get a fair market value deduction—within IRS limits, of course.

FERNANDO: Exactly. So if you or your client are anticipating a big liquidity event—like a business sale, stock vesting, something major—it's worth asking: could a DAF be a part of that plan? Another important point: at NPT, we're equipped to hold assets in concentrated positions. So that can be a real differentiator. It all comes back to flexibility, though.

LISA: Okay, so we've covered the broad range of assets you can contribute to a DAF, but before anyone shows up with a Stradivarius violin (and before you ask, yes, this was a gift that NPT recently accepted), let's explain how that gift acceptance actually works.

FERNANDO: Yeah, let's do that. Because being valuable isn't enough in this case. So of course, NPT can accept non-cash assets. We need to go through a three-part review, and that's gonna review these three very specific questions around ownership, the risk, and the path to liquidity. So, let's start with the ownership piece. At NPT, can we accept this? Can we become the legal owner of this asset? Are there any restrictions on transferring the asset? Are there any holding periods that might actually tie our hands? And if we can't legally accept it, we simply cannot move forward. The next parts are around risks and the structure. The risk and cost: Are there liabilities tied to the asset? Are there unrelated business incomes that could trigger taxes for us? Are there capital calls or carrying costs the DAF would have to absorb? We also look at the structure of ownership. What percentage does the donor own? What percentage will NPT own upon acceptance here? We wanna make sure that we're not stepping into any ownership conflicts or tax complexity there. And then finally, the path to liquidity—how are we going to sell this asset? What are the eventual paths to liquidity: a redemption plan, an offer in play? Since the DAF contributions are irrevocable, we need a realistic plan to turn that asset into charitable dollars. Because that's what DAFs are all about, right? Converting these assets into impact.

LISA: Right. So you just said lots and lots of questions, but it really boils down to three. We want to make sure: Can NPT become the legal owner of this asset? Are the risks and costs of NPT's ownership manageable? And what's the path to liquidity looking like?

FERNANDO: That's exactly right. If you can check those three boxes, we will move forward with our acceptance process. If not, we'll still talk it through and see what's possible. Sometimes a little structuring can actually make a difference—but sometimes it doesn't. So the key to that is to really start the conversation early. I think that the sooner we know what we're actually talking about here, the better we can help and the better the outcome.

LISA: All right, it is my turn now to put you in the hot seat. So I'm going to name an asset, and you tell me if NPT can accept it. Yes, No, or It Depends.

FERNANDO: All right. Lemme stretch.

LISA: Okay, so to start off—this is a softball, maybe—publicly traded appreciated stock.

FG: Yes. That's textbook DAF territory. It's simple, efficient, and very tax smart. But I will say that if a donor wants to claim a deduction at fair market value, they have to hold that asset for at least one year. I tend to say one year and one day of a holding period and then they can get that full fair market value deduction.

LISA: OK, nice. Great. How about cryptocurrency?

FERNANDO: That is also a yes—as long as we can take custody and then find somewhere to sell that immediately. We've accepted everything from Bitcoin to Maker.

LISA: All right, warming up now. How about stock options from your employer?

FERNANDO: That one's a "depends." We need to know what kind of options, whether they're vested, if they're transferable. There's a lot of nuances, but yes—it can be done.

LISA: All right. How about private business shares—but there's already a sales agreement in place?

FERNANDO: Hmm, that one's a trick question. So once there's a binding sale agreement, the IRS actually will treat that sale as already completed. So the donor could still contribute those shares, but they're not gonna get that big bang for their buck. They're still gonna be on the hook for the capital gains and lose that real big tax benefit there.

LISA: Yeah, so really the bottom line there: don't wait until that dotted line is signed. You gotta call us sooner.

FERNANDO: Exactly. Get in touch with us as early as possible. The earlier, the better.

LISA: All right, so one last one here: a parcel of land—

FERNANDO: Mm-hmm.

LISA: —but it used to be a gas station.

FERNANDO: Yeah, that's likely a no, because these environmental risks like contaminated land, they're a huge red flag. So just remember we need to be able to take ownership, and then we manage our risk, and then also be able to find a clear path to liquidity. So if that's something that's gonna jeopardize any of that, then we just simply can't accept that.

LISA: All right. So what's the big takeaway here?

FERNANDO: Timing and structure—they're basically everything. So come to us early. That's really where NPT is gonna stand out, is that we've built a whole infrastructure around evaluating and accepting complex assets—whether it's a family business, crypto, or something totally out of left field.

LISA: Right. And it's not just that we can accept these assets. It's really that we have a team, we have a process, we have the experience to do it really well. We've seen a lot. We know how to navigate the super tricky stuff. So if you're thinking about making a non-cash gift, it's so important to talk to us early. That's when we can really add the most value to help make this complex asset something that will have lasting impact.

FERNANDO: That's right.

LISA: So something I'm fortunate to see pretty often on the West Coast where I live and work—I get to work with a lot of business owners who might be selling that business, and they want to be philanthropic. One of the great ways to do that is by contributing shares of a private company into a DAF ahead of that expected sales transaction. You get a nice one-two punch of avoiding capital gains tax on those contributed shares. You also get a nice charitable deduction for that contribution, and that allows the donor to front-load some giving into that DAF that they can then use for years and years. Well, very often conversations like this ahead of a business transaction can be super contagious, and where maybe the CEO is the first person that we're working with, when the CFO catches wind of this opportunity, they

say, "Hey, I wanna open a DAF." And then the COO says, "Hey, I wanna open a DAF." And we'll very often have multiple donors—five, six, ten donors—who wanna contribute the same asset into their own DAFs all as a part of this single transaction.

FERNANDO: And that's what I really hope that folks can take away today: that donor-advised funds are incredibly flexible and they're capable tools. When I start to think about the "aha" moments that I see either an advisor or a donor have—There's one donor in particular, they've retired, they have no heirs—a married couple—and they are of some wealth. They have a good amount of wealth that they're not quite sure what they wanted to do with it. They automatically thought, "Well, maybe we need to go out and create a private foundation, because that's just what our generation did." What they realized, though, is that they wanted to speak to their advisor to try to understand what else is possible there. We were able to work with that advisor and those donors to really build out a plan as to—what does their giving look like while living? And then also once they've passed, they had no one that they could think of that was going to ultimately be the person who would say where all these grants were gonna go after they've passed. And so they built out a very deliberate legacy plan with National Philanthropic Trust and were able to build out something that's very sophisticated. They were mostly concerned about what happens when and if this charity goes out of business, or this charity has mission drift and they're no longer really fulfilling the needs for the community that they were originally set to serve in their mission. So we were able to build out a capacity where our team was able to kind of step into that role as part of their legacy plan,

(Fernando continues)

and we're gonna be able to kind of fulfill that for them as they kind of move through their giving while living, and then after they've passed, as well. That's amounting to about \$20 million or so that's gonna affect the local community for them.

LISA: Wow, I love that story. I would say the legacy conversation—that “How can I involve my family in my giving?” conversation—that's always full of “aha” moments when we're working with donors and advisors. You know, I have a donor I've worked with who does have a family that has five children. They understood legacy planning was a part of the DAF, that they could name their children as successor advisors to the DAF, and the DAF would then be broken up into five new DAFs for those five kids. What they didn't realize was that they didn't have to wait until then to involve those five kids in the giving. And so they were able to name those individuals as secondary advisors to the DAF. That granted them grantmaking authority so they could go in and kind of get their feet wet, practice a little bit, what it means to use that DAF to support the charities they care about. And it became a really powerful tool for the family to give together and to also plan for the future. Okay, so we've covered what you can and can't do with a DAF, what you can contribute, how grants can be structured, and why sometimes the answer to “Can I use my DAF for that?” is yes—with the right planning.

FERNANDO: That's right. And behind that planning is a team. At NPT, we support donors and advisors with the tools and the expertise and flexibility to bring their charitable goals to life.

LISA: When donors or advisors might come and ask me, “Hey, what makes NPT different?” Usually I will say that NPT has really made itself in a way that appeals to a donor who

has a little bit more complexity around their philanthropic needs. That could be, they want to contribute an illiquid asset; they could have some creative investment ideas for the DAF; or they would wanna do some really sophisticated grantmaking out of the donor-advised fund. We can help a donor who has complex needs around all three phases of a donor-advised fund's life cycle.

FERNANDO: That's right. And I think that that flexibility is the key. We've talked about that a bit. All of those phases of the life cycle—you'd mentioned the contributions in—we have the ability and appetite, really, to really explore different planning ideas there. The investment side, getting a little deeper into the bench and the open architecture, if you will, of the entire investment universe. And then that grantmaking side, where it can be super sophisticated, to really start to affect the causes in a very deliberate and planful way. And I think that that's really exciting. Across the marketplace, we know that we have more of an appetite for a lot of that flexibility, that others just simply can't accommodate.

LISA: You know, I'd say, too, all that flexibility is supported by an incredible service team—real people answering the phones, ready to help with you with anything, any questions you have. It's something that really differentiates us in the marketplace.

FERNANDO: Yeah.

LISA: Fernando, it's been really great to talk to you all about DAFs. You know this is really one of our favorite topics.

FERNANDO: Definitely. It's been great, and I can't wait for next time.

LISA: Yeah, me too! Thanks.