Can I Use My DAF for that? Another Look at When You Can and Can’t Use a DAF

By Gil Nusbaum, General Counsel

Donor-advised funds (DAFs) have grown nearly 300 percent this decade to more than 728,000 accounts, according to National Philanthropic Trust’s most recent DAF Report. Donors are using them to support thousands of nonprofits that range from places of worship and alma maters to local and international organizations working to provide COVID-19 relief efforts. In fact, grants have more than tripled in 10 years to $23.42 billion, a phenomenon our CEO Eileen Heisman explains here.

Most grant recommendations to qualifying nonprofits are approved by the DAF sponsor. Some grant recommendations, however, require additional review and may have to meet specific criteria to be approved. In a blog post last year, we looked at pledges (generally approved) and split, or bifurcated, gifts like sponsorship of a gala (not approved unless benefits are waived). Below are four more grant-related questions, which we answer by providing NPT’s DAF best practices:

1. Can I use my DAF to pay for memberships? Yes, with qualifications. Memberships that provide only incidental benefits and are 100% tax deductible as stated by the charity are permissible. For instance, some museum memberships are fully tax deductible. With other memberships, only part of the cost may be deductible. If that is the case, you cannot pay the deductible portion of a membership from your DAF and the nondeductible portion out of pocket, as this would be considered a bifurcated gift. In other situations, charities may offer tickets to sporting events, parking privileges or other economic benefits—often to donors who are part of a giving society or giving level. As a guideline, such benefits are considered more than incidental if the value exceeds the lesser of 2% of the grant or $110. In such cases, grants are approved only if donors indicate in the grant purpose that they decline any benefits associated with the membership.

2. Can I use my DAF to sponsor a scholarship? Yes, as long as you do not retain the right to select the recipient of the scholarship. For instance, you may contribute to an existing scholarship fund at your alma mater. You may also recommend a grant to start a new scholarship fund at an eligible institution or charitable organization. If you play a role in the selection of a scholarship recipient, however, you and members of your family may not have a majority or deciding vote on qualified applicants. What’s more, your family members must not be eligible to receive scholarships.

3. Can I use my DAF to make a grant to a private foundation? It depends. You cannot recommend grants to private non-operating foundations, such as a foundation that exists to make grants to charities. However, you can recommend grants to private operating foundations, as long as the grant will not disrupt the organization’s status as a private operating foundation and will not be used to pay for compensation to the donor or the donor’s family members.
Can I use my DAF to make grants to international charities? Yes, an NPT donor can recommend grants to international charities that have been vetted by our legal and grants teams. This involves one of two processes: NPT must either obtain a legal opinion that the organization is the equivalent of a U.S. public charity (called equivalency determination) or we must ensure that the grant is spent only for the charitable purpose for which it was made (called expenditure responsibility). Because international grants require extra time and due diligence, donors generally must pay a grant-processing fee not associated with grants to U.S. nonprofits.

For more tips for using your DAF, check out our Tips for Managing Your Charitable Giving. You can also view other frequently asked questions about NPT and our DAFs.

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