



**SOCIAL IMPACT  
COMMONS**

# Resourcing Communities

## Donor Advised Funds & Fiscal Sponsors

**June 1, 2023**



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## Goals

- Understand some of the basic attributes and Trends on Donor Advised Funds and Fiscal Sponsorship
- Explore the potential mission- and impact-related intersectional work between Donor Advised Funds and Fiscal Sponsorship.





# Setting the table

## What is fiscal sponsorship?

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Fiscal sponsorship is an arrangement where an exempt organization, typically a 501(c)(3) public charity, furthers its mission by receiving and expending funds to support a mission-aligned “Project” while retaining discretion and control over the funds.

Depending on the model, fiscal sponsors may also share their legal home, back office, and other resources with their Projects.

Unlike a traditional program carried out by a nonprofit, fiscal sponsorship arrangements are typically memorialized in an agreement that defines roles and responsibilities. The leadership of the Project usually reserves the right to exit the relationship.



# Why Fiscal Sponsorship?

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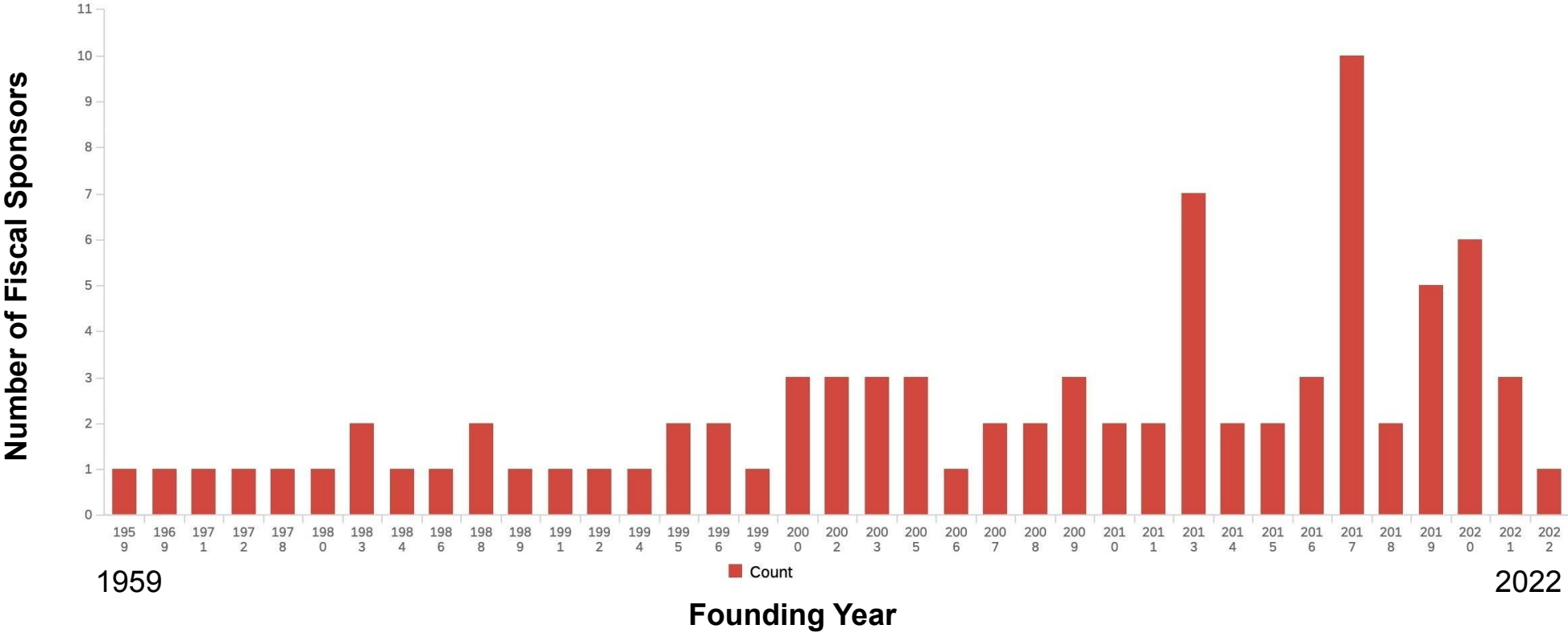
Among many forces at work, we hear three main motivations emerging:

- **Equity & Access** – Turnkey affordable access to nonprofit infrastructure. With the growth of more BIPOC-led and -serving sponsors, we have platforms of trust and cultural competence to meet community needs.
- **Efficiency** – Economies of scale enable fiscal sponsors to offer comprehensive back-office support (and often more) for between 10% and 20% less than it would cost a stand-alone nonprofit, allowing more resources to be allocated to programs/services.\*
- **Solidarity** – Comprehensive fiscal sponsors provide nonprofit commonized backbones, shared capacity for diverse missions that share values; changemakers today are increasingly turning to Solidarity Economy solutions for powering collective action.

(\* ) Comparative economic analysis on the SMU Data Arts data set, conducted by Social Impact Commons in 2020 on 475 arts and culture organizations operating in Southeastern Pennsylvania operating below \$2M in annual budget.



# The fiscal sponsor ecosystem is growing.



Source: *Fiscal Sponsor Field Scan 2022*, Social Impact Commons & National Network for Fiscal Sponsors (public report forthcoming)



# What is a Donor Advised Fund?

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- Around for nearly 100 years.
- Regs last updated via Pension Protection Act of 2006. Formalized definitions in are found in the Internal Revenue Code.
- Philanthropic vehicle that allows individuals, families, or organizations to establish a fund within a 501(c)(3) public charity, typically a community foundation or the nonprofit arm of a financial institution.
- Donor makes irrevocable gift and retains advisory privileges. DAF sponsor has ultimate authority on how funds spent. No required timeline on payout to downstream charities.



# Donor Advised Fund Legal Definition

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IRC 4966(d)(2) defines a “donor-advised fund” as:

1. a fund or account owned and controlled by a sponsoring organization;
2. which is separately identified by reference to contributions of the donor or donors; and
3. where the donor (or a person appointed or designated by the donor) has or reasonably expects to have advisory privileges over the distribution or investments of the assets.

All three prongs of the definition must be met in order for a fund or account to be treated as a donor-advised fund.





# Why DAFs?

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- **Efficiency** – easier and more cost effective than standing up private foundation or similar funding entity.
- **Effective Marketing** - especially by larger national DAFs that are affiliated with financial institutions.
- **Donor Anonymity** - donors can protect their identities.
- **Comfort** - many DAF donors accustomed to playing financial markets and opportunity to advise on investment strategy of DAFs is appealing.
- **Have your cake & eat it too** - immediate tax benefit to donor with ongoing “advisory” privileges.



# DAF Trends & Numbers

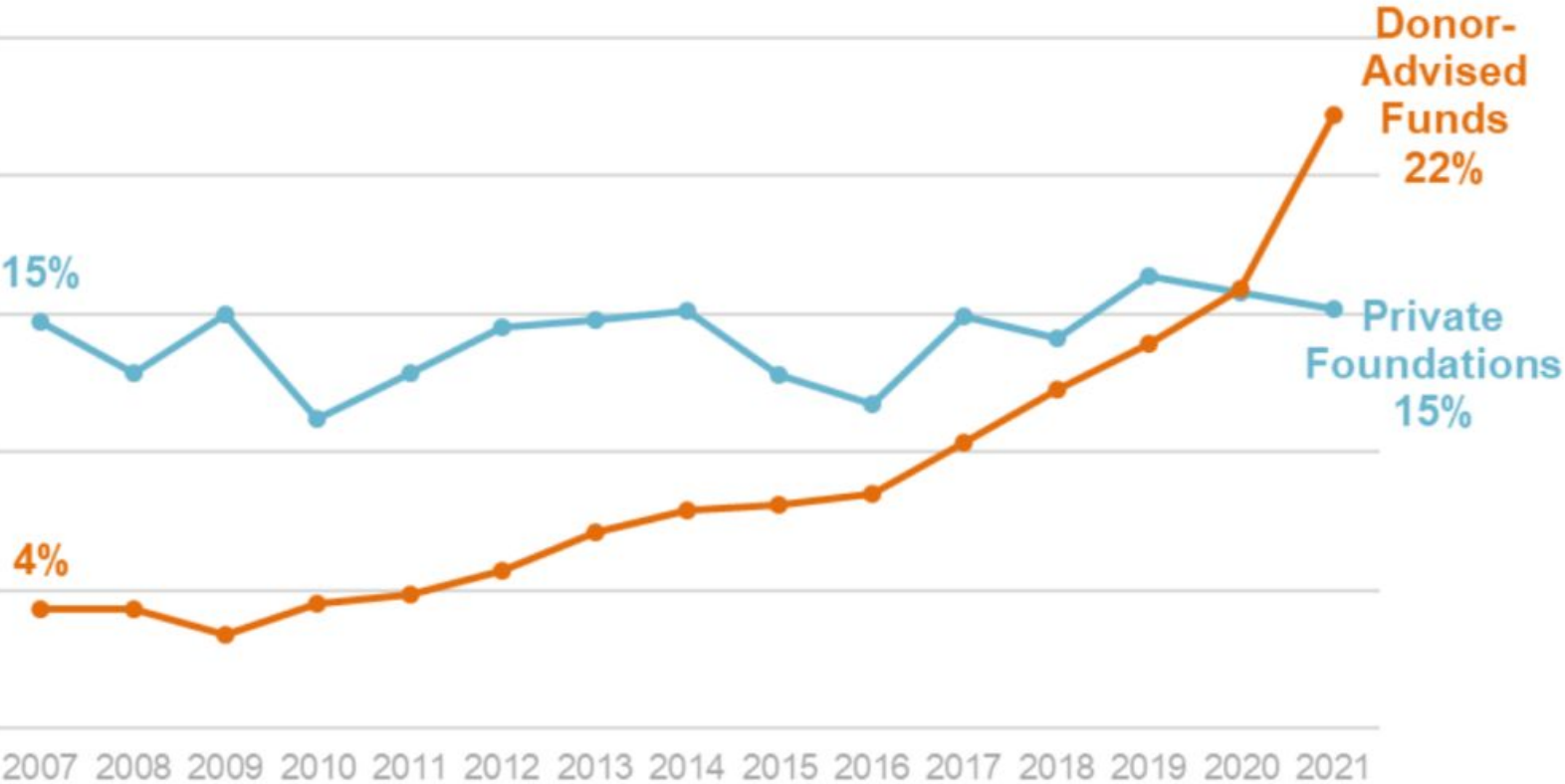
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- **Exponential Growth**
  - Assets held in U.S. DAFs have grown by 376 percent over the past 10 years — from \$34 billion in 2010 to \$167 billion in 2020 to \$234 billion in 2021
  - 22% of all U.S. individual charitable giving now goes to DAFs.
  - 6 of 7 US charities bringing in most contributions in 2020 were all national DAFs affiliated with fin institutions. Dramatic 10 year shift
- **Competition** - increasingly difficult for small shops to compete on price/technology with national platforms. Need to differentiate.
- **Calls for Transparency** - Introduction to Accelerating Charitable Efforts Act.



# DAF Trends & Numbers

## Percent of U.S. Individual Charitable Giving Going to Private Foundations and Donor-Advised Funds



Sources: DAF giving is from the National Philanthropic Trust. Foundation giving is from *Giving USA*, minus the amount the NPT reported as being given to community foundation DAFs (to avoid double-counting that revenue).



# The DAF Problem (Opportunity)

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- There is an estimated \$234 billion in DAF charitable assets and more than \$1.3 trillion in private foundation assets estimated for 2021. Comparing the two, DAF charitable assets amount to 18 percent of those in private foundations.
- Roughly 20% of Field Scan respondents (n=100) indicate also managing DAFs, which suggests that a significant number of sponsors also manage DAFs.
- In 2022 (per NPT) DAFs distributed ca. 27% of their assets. Over the last decade average distribution was ca. 22% (versus about 5% from private foundations).
- While DAFs *move* a higher percentage of assets than private foundations, there is still a challenge concerning *access*, in particular for communities that do not have social connections to high net worth individuals. Donor control still prevails.
- ***How can the (growing?) relationship/proximity between fiscal sponsors and DAFs facilitate greater access to DAF resources for those in greatest need?***





**Discussion:**  
**How can DAFs and Fiscal Sponsors unite to drive more \$ and resources into community?**



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