Foundation-to-DAF Conversions: Is It a Thing?

Donor-advised funds offer greater tax benefits, lower costs, and more anonymity than private foundations, while still giving donors a huge amount of power over grantmaking. So are foundation donors jumping ship and switching to DAFs?

By Helen Flannery

Donor-advised funds, or DAFs, have been the fastest-growing giving vehicle in the charitable sector for more than a decade. Their incoming contributions have skyrocketed to the point where now seven of the top ten public charities in the U.S. are DAF sponsors.

A large part of their appeal is that DAFs provide their donors with larger tax reductions and significantly lower costs than private foundations, while still allowing donors to continue to make granting and sometimes investment decisions about donated funds. It is also impossible for the public to trace a DAF grant back to an individual donor, making DAF granting essentially anonymous — something that would be much more difficult to achieve with a private foundation. And, unlike private foundations, DAFs have no minimal annual payout requirement, so donors can take as long as they like to decide on their grants.

Donor-advised fund sponsors — community foundations and national sponsors alike — haven't hesitated to market these advantages to prospective donors, and to emphasize how easy it is to convert a private foundation to a DAF.

So a question that often arises among DAF watchers is: Are donors converting their private foundations to DAFs?

In our own analysis of private foundation tax returns, we estimate that, on average:

- **5 percent of the foundations that dissolve each year do so by converting to DAFs.**
- **The foundations that dissolve by converting to DAFs are eleven times larger than the typical dissolving foundation.**
- **Grants to DAFs from converting foundations make up a disproportionately high percentage — an annual average of 19 percent — of the grants paid out by all dissolving foundations.**
- **Overall, grants to DAFs make up one quarter of the grants paid out by all dissolving foundations.**

Identifying Foundations Converting to DAFs

Unfortunately, there are no mandatory reporting requirements about the financial behavior of individual donor-advised funds. And private foundations aren't required to identify their grantees by taxpayer ID number. Both of which make it difficult to find out how many foundations convert to DAFs each year. But we made a stab at it.

Step 1: Identifying dissolving foundations. To find the number of foundations converting to DAFs, we first had to identify how many foundations were dissolving in a given year. There are a number of possible ways to do that; some are more straightforward but prone to error, while others are more complex but more rigorous. So we tried two different approaches:

> *Method 1: Identifying dissolving foundations as those that checked the Final Return checkbox on their tax return.* This is the most straightforward approach, but has the disadvantage of missing any foundations that forgot to check the checkbox, or which paid out most of their funds in one year but didn't officially dissolve until the following year.
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> *Method 2: Identifying dissolving foundations as those that had a 90% decline in their assets over the year, and assets of no more than $1,000 at the end of the year.* This is a somewhat more complex approach, but has the advantage of finding most of the dissolving foundations that slipped through the cracks with method 1.

Step 2: Identifying dissolving foundations that converted to DAFs. After using the two methods above to identify dissolving foundations, we then identified the grants from those foundations that went to the largest national and community foundation DAF sponsors. When a dissolving foundation paid 90 percent or more of its final-year grants to any of these sponsors, we counted it as a foundation that was converting to a DAF.

We calculated these results for 2017 through 2021, the five most recent years of tax returns available at the time of our analysis.

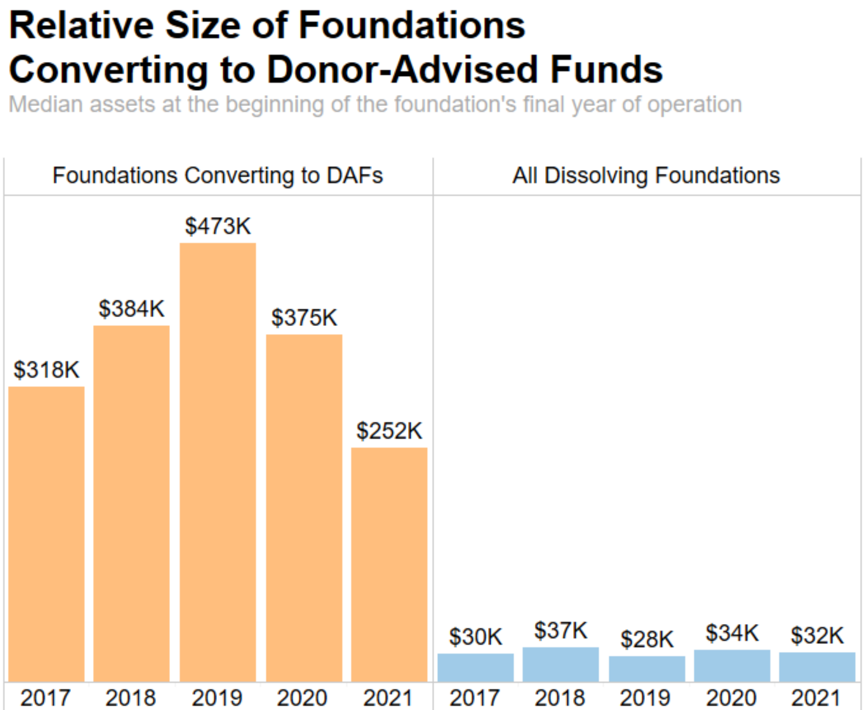
What We Found

In the end, actually, the results from both of the methods above were similar. For both methods, we found that, over the five years from 2017 to 2021:

- **Roughly 1.5 percent of foundations dissolve every year.** In 2021, for example, 1,939 foundations checked the Final Return checkbox on their tax returns out of a total foundation population of 113,699.

- **Of the foundations that dissolve, 5 percent do it by converting to DAFs.** In 2021, of the 1,939 foundations with the Final Return box checked, 4.7 percent gave 90 to 100 percent of their final-year grants to DAF sponsors. (3.1 percent gave 100 percent of their final-year grants to DAFs.)

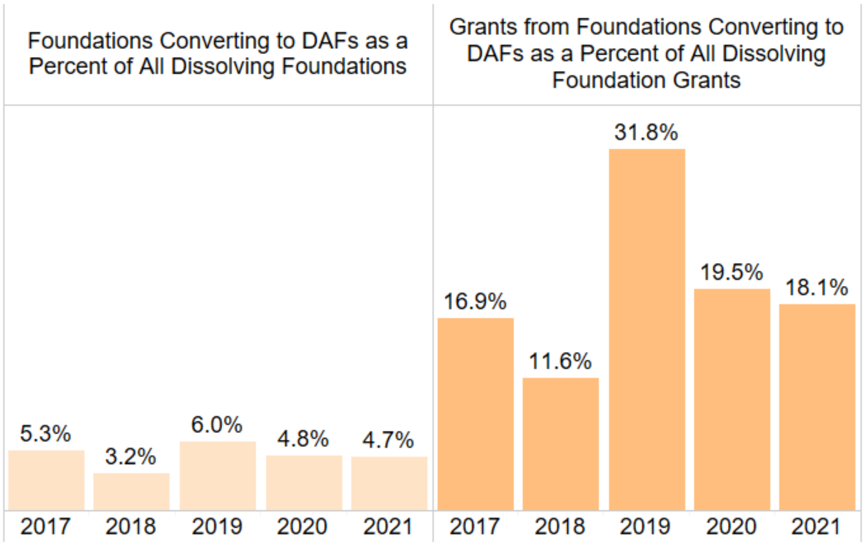
- **The foundations that convert to DAFs are an average of eleven times larger than the typical dissolving foundation.** In 2021, the median assets of all foundations with the Final Return box checked was $32,199 at the beginning of the year, compared to $251,670 for foundations that dissolved by giving 90 percent or more of their final-year grants to DAFs.



Source: IRS. Dissolving foundations are those that checked the Final Return checkbox on Form 990-PF, Part 0, Line G. Foundations converting to DAFs are those dissolving foundations where 90% or more of final-year grants went to DAFs.

- **Grants to DAFs from converting foundations make up a disproportionately high percentage — an annual average of 19 percent — of the grants paid out by all dissolving foundations.** In 2021, the foundations that had the Final Return box checked gave out a total of $1.4 billion in grants. Foundations converting to DAFs paid out $256 million in grants that year, $252 million of which went to DAF sponsors.

Foundations Converting to Donor-Advised Funds as a Percent of All Dissolving Foundations



Source: IRS. Dissolving foundations are those that checked the Final Return checkbox on Form 990-PF, Part 0, Line G. Foundations converting to DAFs are those dissolving foundations where 90% or more of final-year grants went to DAFs.

- **Overall, grants to DAFs make up an average of 24 percent of the grants paid out by all dissolving foundations.** In 2021, dissolving foundations paid out $1.4 billion in grants, and $361 million — 25.7 percent — of those grants went to donor-advised funds.

We found no clear pattern of whether foundation-to-DAF conversions are becoming more or less common over time. But there is a big caveat to that: all of our data comes from electronically-filed foundation tax returns, and, until 2020, foundations weren't required to file electronically. This means that our data before 2020 represents a subset of foundations, rather than the entire foundation population. We are hopeful that with more complete data sets in future years, we will be able to say more definitively whether foundation-to-DAF conversions are becoming more or less frequent.

Why This Matters

Whether wealthy donors are converting their foundations to DAFs may seem like an obscure topic. But it is important for several reasons.

> **Private foundations have a minimum payout requirement, while DAFs have none.** Every year, private foundations must pay out grants that amount to at least 5 percent of their assets, so there is at least a minimal guarantee that some of the funds stored within them will move out to working charities. DAFs, on the other hand, have no payout requirement at all. By moving money from a private foundation to a DAF, the money goes from an intermediary with at least a minimal payout requirement to an intermediary with none at all.
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> **The public pays a larger subsidy on donations to DAFs.** This is because the deductibility caps on donations to donor-advised funds are higher than those on donations to private foundations. For example, when a donor gives a cash gift to a DAF, they can take a tax deduction on that gift of up to 60 percent of their adjusted gross income. If they give that gift to a private foundation instead, their deduction is limited to 30 percent. Other types of donations to DAFs have higher deduction caps as well. And every cent of these deductions is subsidized by other taxpayers. So by moving money from a foundation to a DAF, the money goes from an intermediary with lower public subsidies to an intermediary where the subsidies are potentially much higher. The donor doesn't get any additional tax reduction for the initial switch, but any additional donations they make to their DAF will get the higher subsidy.
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> **Private foundations are more transparent.** Private foundations have to disclose detailed information about their financial behavior, including their grants, their payout rate, and their major donors. DAFs have much looser reporting requirements — they only have to report on grants and payout on the aggregate sponsor level, and the sponsors themselves may not always know who is behind an individual fund. By moving money from a private foundation to a DAF, the money goes from an intermediary with at least minimal reporting requirements to an intermediary with next to none.

We have long urged major donors to give boldly and directly to working charities, rather than giving through intermediaries like private foundations and donor-advised funds. But when donors do choose to give through intermediaries, opting for a DAF over a private foundation means that the money is subject to no payout requirement, minimal accountability, and higher public subsidies. It will be important to keep an eye on foundation-to-DAF conversions in the future to ensure that our public tax dollars are being used responsibly.

The Data in Detail

For simplicity's sake, the table below details our results for dissolving foundations identified by whether or not they checked the Final Return checkbox in the current year. The percentages and relative asset amounts for dissolving foundations identified by the change in their year-begin and year-end assets were similar.

Foundations Converting to Donor-Advised Funds, 2017-2021

Dissolving foundations are those that checked the Final Return checkbox in their current-year tax returns.
Converting foundations are those that dissolved by giving 90% or more of their final-year grants to DAFs.
All numbers below refer only to foundations filing electronically in the year noted.

	2017	2018	2019	2020	2021	Average 2017-2021
Total number of U.S. foundations	**66,995**	**71,978**	**55,988**	**108,095**	**113,699**	
Number of dissolving foundations	**948**	**1,038**	**765**	**1,865**	**1,939**	
% of total foundations that are dissolving	1.4%	1.4%	1.4%	1.7%	1.7%	1.5%
Median year-begin assets	$29,520	$36,722	$27,599	$33,804	$32,199	$31,969
Final-year grants	$430.0M	$485.8M	$316.3M	$880.1M	$1,409.1M	
Final-year grants to DAFs	$89.0M	$61.5M	$127.1M	$191.6M	$361.9M	
DAF grants as % of total grants from all dissolving foundations	20.7%	12.7%	40.2%	21.8%	25.7%	24.2%
Dissolving foundations converting to DAFs	**50**	**33**	**46**	**89**	**91**	
% of total dissolving foundations	5.3%	3.2%	6.0%	4.8%	4.7%	4.8%
Median year-begin assets	$317,828	$383,594	$472,835	$374,653	$251,670	$360,116
Final-year grants	$72.8M	$56.5M	$100.6M	$171.5M	$255.6M	
Grants as % of total grants from all dissolving foundations	16.9%	11.6%	31.8%	19.5%	18.1%	19.6%
Final-year grants to DAFs	$70.8M	$56.1M	$98.2M	$166.7M	$252.5M	
DAF grants as % of total grants from all dissolving foundations	16.5%	11.5%	31.0%	18.9%	17.9%	19.2%
Foundations giving 100% of final-year grants to DAFs	24	17	21	44	60	
% of total dissolving foundations	2.5%	1.6%	2.7%	2.4%	3.1%	2.5%

Methodology

All private foundations in the U.S. must file an annual tax form called the 990-PF. All of the data we analyzed comes from the tax filings of private foundations that filed electronically for tax years from 2017 to 2021. These are the most recent five years currently available for most private foundations.

- The **Tax Year** for private foundations comes from private foundation tax returns on Form 990-PF, Return Header, Tax Period End Date.

- The **Final Return checkbox** for private foundations comes from Form 990-PF, Part 0, Line G.

- **Year-begin and year-end assets** for private foundations come from Form 990-PF, Part II, Lines 16a & 16b (respectively).

- **Total foundation grants** are the total of all detailed grants reported on Form 990-PF, Part XIV.

- For our analysis of **foundation grants to DAFs**, we compared the detailed grants reported by all electronically-filing private foundations in the U.S. for the five tax years available to an IPS-maintained list of 54 national DAF sponsors and 25 community foundation DAF sponsors with assets of $500 million or more.

For method 1, our **base population** was all foundations in our data set. For method 2, since, by definition, we could only evaluate foundations with valid year-begin assets, our base population was all foundations with non-null, non-negative year-begin assets.

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Helen Flannery is the Research Director of the IPS Charity Reform Initiative.

Contact: hflannery@ips-dc.org

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