

DONOR-ADVISED FUNDS: A POWERFUL, POPULAR CHARITABLE GIVING TOOL

BY ELIZABETH MCGUIGAN

EXECUTIVE SUMMARY

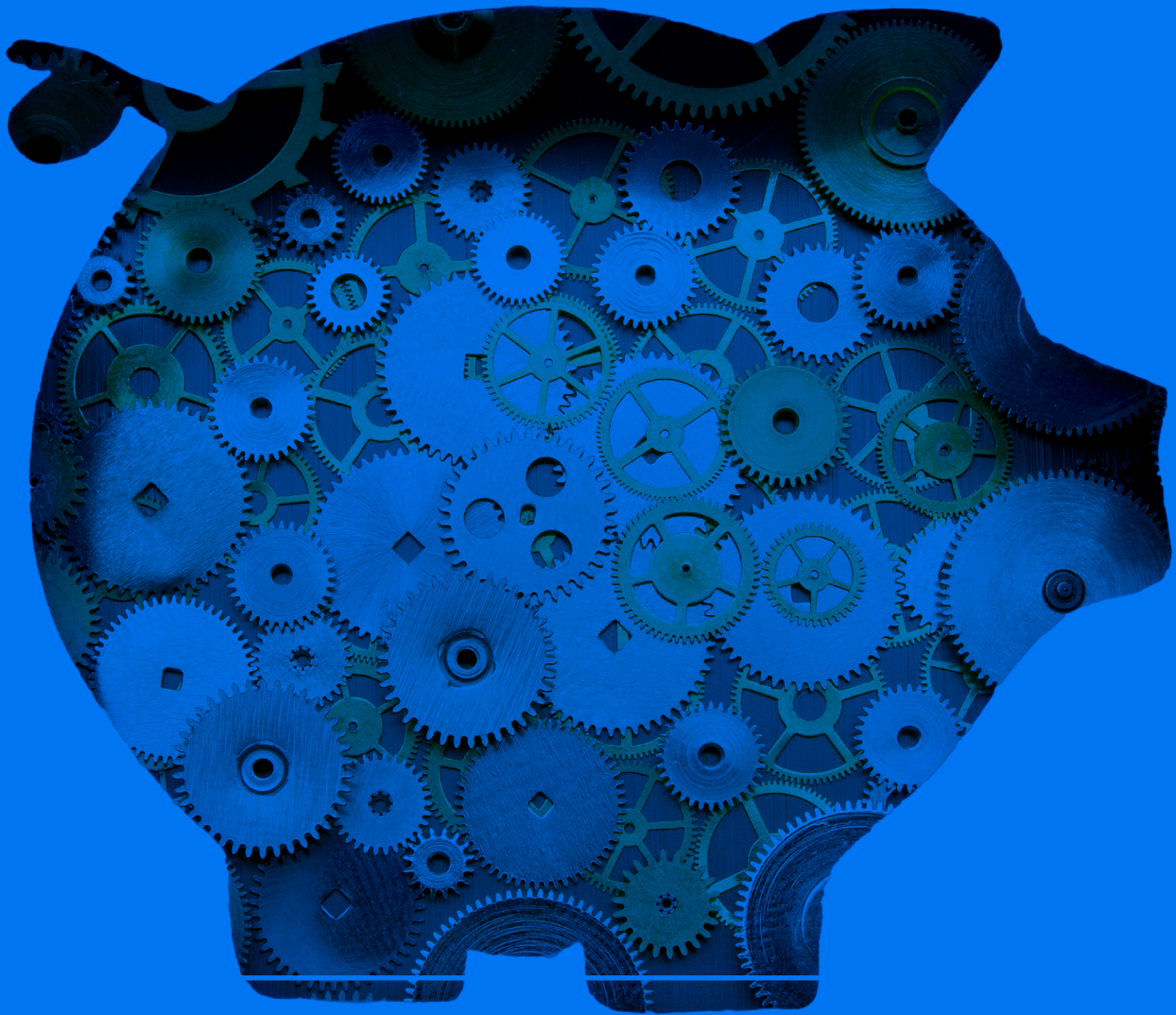
ALL AMERICANS SHOULD HAVE THE FREEDOM TO USE A WIDE-RANGE OF CHARITABLE VEHICLES TO MEET THEIR GIVING GOALS.

DONOR-ADVISED FUNDS (DAFS), PERSONAL CHARITABLE GIVING ACCOUNTS, ARE POPULAR AND EFFECTIVE CHARITABLE VEHICLES THAT SUPPORT A WIDE VARIETY OF CAUSES.

AS DONORS GIVE TO DAFS, THE FUNDS ARE IRREVOCABLY COMMITTED TO CHARITABLE GRANTS AND DONORS HAVE THE FLEXIBILITY TO DIRECT WHICH 501(C)(3)S RECEIVE THE FUNDS AND WHEN.

DAFS OFFER DONORS EASE OF USE, PRIVACY AND THE ABILITY TO RESPOND TO CRISES QUICKLY AND NIMBLY.

THERE IS NO EVIDENCE TO SUPPORT NEW RESTRICTIONS ON DAFS.



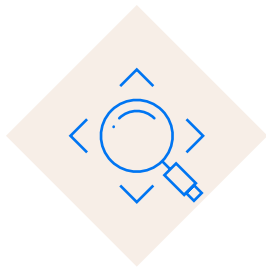
INTRODUCTION

The Philanthropy Roundtable supports the voluntary nature of philanthropy and believes that it is necessary to protect all pathways to giving. Donor-advised funds, or DAFs, are personal charitable giving accounts that allow donors flexibility, accessibility and tax benefits for their charitable contributions. These accounts are hosted by public charities including community foundations, mission-based organizations and national sponsors. As an increasingly popular pathway to charitable giving, DAFs should be encouraged and supported by lawmakers and regulators.

Once a donor contributes funds into a DAF, he or she no longer has control over the funds and may not withdraw the funds for any purpose.

While the donor may recommend grants out of a DAF when and how it suits his or her giving goals, every contribution put into a DAF is irrevocably dedicated to distributions to 501(c)(3) charitable organizations. For that reason, the donor may claim the charitable tax deduction upon contribution to a DAF.

DAFs allow donors to choose when to distribute funds to charities. Part of the benefit of DAFs is that they are flexible enough to allow the kind of countercyclical activity that charities rely on in times of economic downturn. Many sponsoring organizations have policies in place to prevent accounts from remaining dormant for long periods of time.



DIVERSE ECOSYSTEM OF DAFs

DAFs are used to support a vibrant array of charitable

causes such as local food banks, environmental issues, health care, education, international relief, the arts and faith-based charities. DAF donations must go to IRS-designated 501(c)(3) charities, but there are no requirements for which legal, legitimate causes they must support. This diversity is further supported by the wide range of DAF sponsoring organizations.

Community foundations are a common DAF sponsor.¹ These organizations may offer unique services such as due diligence research and advice on local charities, or opportunities to pool resources with other DAF donors to direct support toward emergency response or other needs within a community. Donors can choose to support close-to-home projects like helping to buy a fire truck or funding a new playground.

The four largest national sponsors of DAFs are Fidelity Charitable, Vanguard Charitable, Schwab Charitable, and the National Philanthropic Trust.² These charitable arms of financial services companies may offer valuable benefits such as facilitating transfers from personal financial accounts to a DAF (although not the reverse), and research on a wide range of charities nationwide.

Donors with specific goals may choose to open a DAF with a mission-based sponsor such as the Jewish Community Federation, the National Christian Foundation or the Sierra Club Foundation.



EASE OF GIVING

DAFs are for Americans of all income levels. While there are certainly financial

barriers for many middle-income Americans to start their own private foundations, opening a DAF is accessible to all who wish to donate to charities in thoughtful, strategic ways over a period of time that meets their goals. When a donor opens a DAF, there is often a low minimum, or no minimum required. Many DAFs require a low minimum open (Renaissance Charitable for example requires \$5,000) and some, such as the Knights of Columbus, Schwab Charitable, and Fidelity Charitable, have a \$0 minimum.

The National Philanthropic Trust's 2020 DAF report found that in fiscal year 2019, there were over 873,000 DAF accounts and the average size of these accounts was \$162,556.³ Compared with large private foundations such as the Ford Foundation, with assets of \$13 billion in 2019, these accounts are small.⁴ But the impact of these individual Americans utilizing DAFs to help their communities and causes they care about is meaningful.

The flexibility afforded by DAFs certainly benefits DAF donors, but it also serves the charitable recipients as well. Data show DAF donors pay out about 20% of their funds each year, far higher than the 5% required of private foundations.⁵ According to the National Philanthropic Trust's 2020 DAF report, "grantmaking from DAFs to qualified charities totaled more than \$25 billion in 2019, a 93% increase since 2015. The same rapid growth trajectory also applies to contributions to DAFs, which totaled \$38.81 billion in 2019. This represents an 80% increase in contributions since 2015."⁶



CHARITABLE SUPPORT DURING A CRISIS

A donor may choose to recommend grants out of a DAF each year, or to allow funds to grow and appreciate over time in order to make a larger gift. Some donors may use their DAFs as rainy-day funds for charitable giving: making contributions to their DAFs in times of plenty in order to grant to charities in times of great need. A 2019 study found that DAF grantmaking is more “resilient to recession economies than other forms of charitable giving.”⁷

This was clearly illustrated in 2020 as donors to DAFs stepped up to provide COVID-19 relief.⁸ According to a National Philanthropic Trust survey of DAF COVID grantmaking, donors increased their grant amounts to charities by nearly 30% in the first six months of 2020, from \$6.41 billion in the first six months of 2019 to \$8.32 billion for the first half of 2020. This growth rate is nearly double the growth for the prior 6 months, and a nearly \$2 billion increase in funds for charities.⁹

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For those who choose to allow funds to appreciate, charities reap the gains of the appreciation as well. A February 2021 study from the American Enterprise Institute and the Philanthropy Roundtable reviewed data from four major DAF sponsors (Fidelity, Vanguard, Schwab and the National Philanthropic Trust) that account for about half of the DAF assets in America. From 2015 to 2019, assets held in DAFs at these four major sponsors saw appreciation of about \$2.66 billion—new funds solely earmarked for charitable giving.¹⁰



PROTECTING THE PRIVACY AND SAFETY OF GIVERS

Part of the reason DAFs are increasingly popular is that they allow donors to remain private. A donor may choose to remain anonymous in their giving by directing a grant from the DAF without attaching his or her name to the gift. If DAFs are discouraged and overregulated, donors lose this important benefit for individuals and for private foundations who would choose to give through a DAF for privacy reasons.

Critics argue that DAFs allow “dark money” to fund nefarious causes.¹¹ Clearly, DAFs should not be able to fund groups breaking the law. Whether a charity is eligible for DAF grants—or any other charitable contributions—is up to the IRS. DAFs aren’t unique in this respect. An individual may donate directly to a cause if they prefer.

Of course, America today is an increasingly divided society and important causes to some may be nefarious to others. A key part of America’s charitable sector landscape is its diversity. Americans should be permitted—and are permitted—to give to any legal 501(c)(3) organization. These organizations are subject to IRS and state oversight and must abide by restrictions such as a prohibition from engaging in campaign-related activity.



The privacy protections in place for DAF donors protect those who may choose to remain anonymous for a wide range of valid reasons—including religious or moral reasons, not wanting to distract from the work the charities are doing or out of concern for retaliation against their donations to more controversial causes.¹² Calling DAFs “dark money” is meant to put a stain on what is a very legitimate reason to remain private.



THE CYCLE OF GIVING CONTINUES

The unique characteristics of DAFs facilitate a cycle of giving. Some DAF donors are seeking to save charitable funds in their working years to distribute in retirement, when they have time to devote to determining their giving goals. This is a perfect example of saving in “fat” years for granting in “lean” years or for smoothing giving across time to ensure ongoing support for a cause. Other donors use DAFs as a

tool to engage their children in charitable giving and foster a generational legacy of giving, without the overhead of establishing a private foundation.

Further, DAFs are useful tools for private foundations themselves. In addition to the ability to give anonymously, described above, there are ample legitimate reasons a private foundation may choose to use DAFs as a giving vehicle. Private foundations may donate through a DAF in order to pool resources with other givers, make a one-time, off-mission grant without generating unwanted solicitations, or to more easily give international gifts in compliance with laws and regulations.



DAFS DO NOT NEED MORE RESTRICTIONS

Despite their growing popularity and valuable role in incentivizing charitable giving, DAFs have their critics. The main, flawed, arguments for increasing

restrictions on the very factors that make DAFs so popular include: 1) donors do not distribute enough of their DAF funds quickly enough and 2) charitable giving has not increased as a share of disposable income since modern rise in DAFs.

The first argument, that funds are “stockpiled” and not flowing through to charities in a timely way, leads to calls for imposing a payout requirement on DAFs. A payout requirement for DAFs is a solution in search of a problem. According to an analysis by the Philanthropy Roundtable, DAFs consistently payout between 14-22%, even using the critics’ preferred calculations.¹³ Imposing a payout rate requirement would limit the flexibility that has made DAFs so popular, without addressing any actual problem. Imposing a payout requirement would actually discourage giving as donors are not able to build a legacy of giving that can grow over time, at a detriment to charities. There is also a signaling problem with imposing a payout requirement for DAFs that is lower than existing payout rates. This would signal that the required rate may be a ceiling, not a floor.¹⁴ As far as whether charitable giving is affected by the existence of DAFs, there are many factors that impact the generosity of Americans including changes in the economy, tax law or the stock market. The fact is, Americans give more to charity today than before the advent of modern DAFs.¹⁵ Some DAF critics present charitable giving as a percentage of disposable income—which has remained steady over time—as evidence that givers are putting funds into DAFs, but not increasing the amount they are giving directly to charities. They falsely assert that the growth in DAFs has replaced what would otherwise be a growth in charitable giving as a

percent of income. This claim ignores the fact that all funds going into DAFs are committed to charitable giving. One such study that purports to show that DAFs divert charitable dollars away from charities has itself been debunked for significant flaws in its methodology.¹⁶

Further, there is no evidence that DAFs, as a giving vehicle, drive fundamental trends in charitable giving as do economic factors or tax changes. There is simply no data showing the growing popularity of DAFs has cannibalized other forms of charitable giving, as critics claim. Conversely, the growth of DAFs represents a growing reservoir of resources for charities that will continue to grow over time. Data show giving across nearly all causes—including education, human services, public-society benefit organizations and environment and animal organizations—rose significantly in 2020, even while DAFs are increasing in popularity.¹⁷

CONCLUSION

All Americans benefit from a strong and diverse charitable sector. DAFs and their donors are a crucial piece of this landscape and should be allowed to continue growing and facilitating charitable giving. The accessibility and diversity of DAFs benefit givers, the charities they support and our society. The tax benefits and the flexibility of DAFs encourage people to give who may not otherwise do so. Changing or limiting those benefits would turn away charitable dollars that will grow and appreciate over time.

ENDNOTES

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ABOUT PHILANTHROPY ROUNDTABLE

Philanthropy Roundtable is a nonprofit organization dedicated to building and sustaining a vibrant American philanthropic movement that strengthens our free society. To achieve this vision, the Roundtable pursues a mission to foster excellence in philanthropy, protect philanthropic freedom and help donors to advance liberty, opportunity and personal responsibility.



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