



An Analysis of Charitable Giving and Donor Advised Funds

Molly F. Sherlock, Jane G. Gravelle

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Congress has long been concerned with ensuring that contributions for which tax deductions are claimed directly benefit charitable activities. Private foundations, a traditional arrangement that allows donations to non-active charitable entities, typically pay grants out of earnings on donated assets. Another arrangement that is growing rapidly is the donor advised fund (DAF). A taxpayer contributes to a DAF, taking a tax deduction. The fund sponsor makes grants to active charities, advised by the donor. Unlike private foundations, DAFs are not required to pay out a certain proportion of assets as grants each year. DAFs have become increasingly popular in recent years, partly due to commercial funds (e.g., Fidelity) with limited traditional charitable interests. Provisions enacted in the Pension Protection Act of 2006 (P.L. 109-280) required DAF sponsors to report data on grants. The data are reported at the sponsoring organization level, where sponsoring organizations may maintain multiple individual DAF accounts. The 2006 act also directed the Treasury Department to study DAFs, with Congress expressing particular interest in issues relating to potential restrictions on deductions and minimum payout requirements. The Treasury study was released in 2011. Senator Chuck Grassley, Senate Finance chairman at the time of the 2006 legislation, has criticized the study as being “disappointing and nonresponsive.” The Treasury did not recommend restrictions on deductions (such as those that apply to private foundations where grants are typically made out of earnings), appealing to the lack of legal control by the donor. However, evidence from public comments in the report and sponsor websites indicate that sponsoring organizations typically follow the donor’s advice, thus suggesting that donors have effective control over donations and, in some cases, investments. Private foundations have a 5% minimum payout rate (and actual payouts are only slightly above that amount). The Treasury also did not recommend a minimum payout for DAFs, indicating that more years of data are needed. The Treasury also appealed to the higher estimated average payout rate of DAF sponsoring organizations (9.3% in 2006) as compared to foundations. This report uses 2008 data to examine the minimum payout requirement, finding results similar to those found by Treasury. The average payout rate was 13.1%. More than 181,000 individual DAF accounts were maintained by roughly 1,800 DAF sponsoring organizations. Most individual accounts were maintained by institutions with a large number of accounts (two-thirds of all DAF accounts were held by sponsoring organizations that maintained at least 500 accounts; nearly half of all DAF accounts were held by commercial DAF institutions). Assets in DAF accounts were \$29.5 billion, contributions were \$7.1 billion, and DAF accounts paid out \$7.0 billion in grants. Because DAF accounts have heterogeneous objectives, in some cases to manage giving with high payout rates and in others to establish an asset base, a DAF sponsor can have a high average payout rate although many accounts have little or no payout. In both 2006 and 2008, a substantial share of DAF sponsoring organizations paid out less than 5% of assets each year. To provide some insight into the payout behavior of individual DAF accounts, sponsoring organizations that reportedly maintained only one DAF account in 2008 are analyzed separately. Although the average payout rate was over 10%, more than 70% of DAF sponsoring organizations with a single DAF account paid out less than 5%, and 53% had no grants. In contrast, less than 4% of sponsors with 100 or more accounts, accounting for 87% of DAF accounts, have a payout rate of less than 5%. This suggests that a minimum payout rate for sponsors would not be effective; an effective minimum payout requirement would need to be applied to individual DAF accounts.

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