

Philanthropy Northwest's Position

We favor regulation to increase transparency and payout of donor-advised funds to increase the availability of philanthropic resources to underserved communities.

Beyond reforms, we also support increased education and research to help us deepen understanding of complexities and considerations to inform our stance on proposals.

Background

Donor-advised funds (DAFs) are a type of donor giving account housed at some public charities, including many community foundations and the nonprofit arms of commercial financial firms – collectively known as DAF sponsors. After setting up an account, a donor puts tax-deductible donations into their DAF, which is invested while they recommend grants out to nonprofits over time. DAFs do not appear to have increased charity overall,¹ but they are an increasingly popular tool among wealthier donors, holding \$229 billion as of 2022.² Many DAFs fund good causes and are managed by sponsors with best practices in place. But many others are falling short, due to loopholes that limit DAFs' accountability to communities and require reform:

- **Donations put into DAFs count as charitable tax deductions, but DAFs never have to give the funding to charity.** Some DAFs are generous, but others provide little for communities. More than one-fifth of sponsors have DAF payouts averaging under 5% per year.³ One survey found that 22% of DAFs made no grants in the first three years of the COVID-19 pandemic, while another 23% gave less than 5%.⁴ Some sponsors allow DAFs to sit idle for years, or indefinitely.⁵
- **Some DAF grants do not go to charity.** More than 10% of DAF grants go to other DAFs, not charities.⁶ Some private foundation grants go to DAFs too. Private foundations can avoid federal payout and disclosure rules by storing funds in a DAF they manage instead of giving to charity.⁷
- **A portion of DAF giving goes to harmful causes.** For example, DAFs give hate groups tens of millions of dollars per year. Some commercial and community foundation sponsors prevent DAF grants to such causes, but others allow them.⁸
- **Information on DAF accounts is scarce.** Collecting more data without compromising donor anonymity can help develop transparency, as nonprofit grantees can find DAFs opaque and difficult to work with.⁹

We welcome opportunities to partner in continuing conversations as Congress considers reforms to DAFs. Our network represents many DAF sponsors, including many local community foundations in the Northwest. We facilitate and participate in DAF conversations and research across the sector to inform our position, promoting best practices and regulatory reform efforts to ensure all DAFs serve communities.



¹ James Andreoni and Ray Madoff, *Impact of the Rise of Commercial Donor-Advised Funds on the Charitable Landscape 1991-2019* (Boston: Boston College Law School Forum on Philanthropy and the Public Good, 2021), 1-2, 8, <https://www.bc.edu/content/dam/bc1/schools/law/centers/philanthropy/2021-forum-philanthropy-report-dafimpact.pdf>; James Andreoni, "The Benefits and Costs of Donor-Advised Funds," *Tax Policy and the Economy* 40, no. 1 (2018), 38-40, <https://www.journals.uchicago.edu/doi/10.1086/697137#d6519460e1926>.

² *The 2023 DAF Report* (Jenkintown: National Philanthropic Trust, 2023), 11, <https://www.nptrust.org/wp-content/uploads/2023/11/2023-DAF-Report.pdf>; James Andreoni, "The Benefits and Costs of Donor-Advised Funds," *Tax Policy and the Economy* 32, no. 1 (2018), 6-10, <https://www.journals.uchicago.edu/doi/10.1086/697137#d6519460e1926>.

³ "Calculating DAF Payout and What We Learn When We Do It Correctly" (Working paper, National Bureau of Economic Research, 2020), 7, <https://www.nber.org/papers/w27888>.

⁴ Dan Heist, Danielle Vance-McMullen, Jeff Williams, and Brittany Keinker, *The National Study on Donor-Advised Funds* (Donor-Advised Fund Research Collaborative, 2024): 38, https://johnsoncenter.org/wp-content/uploads/2024/02/DAFRC_Report.pdf.

⁵ Dan Heist and Kendra Stone, *Self-Regulating Donor Advised Funds An Analysis of Inactive Account Policies and Endowed DAFs* (Provo: Donor-Advised Fund Research Collaborative, 2023), 10, 12, https://static1.squarespace.com/static/6011def87418a462fcb03978/t/63bc68db71b3320673337333/1673291998922/Self-Regulating+DAFs_6Jan.pdf; Dan Petegorsky, "How the DAF Industry Controls the Data and Attempts to Control the Narrative," *Inside Philanthropy*, January 30, 2023, <https://www.insidephilanthropy.com/home/2023/1/30/how-the-daf-industry-controls-the-data-and-attempts-to-control-the-narrative>.

⁶ *Donor-Advised Funds, An Overview* (Sacramento: California Department of Justice Office of the Attorney General, 2022), 3, 22-23, <https://oag.ca.gov/system/files/media/donor-advised-funds-overview.pdf>; Helen Flannery and Brian Mittendorf, *Reshaping Charity Channels: How Assets Flow into and out of Donor-Advised Funds* (The Ohio State University Fisher College of Business, 2024), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4683236.

⁷ Marc Gunther, "Foundations Are Sending More Dollars to Donor-Advised Funds, Chronicle Analysis Finds," *Chronicle of Philanthropy*, October 30, 2020, <https://www.philanthropy.com/article/foundations-are-sending-more-dollars-to-donor-advised-funds-chronicle-analysis-finds>; Chuck Collins and Helen Flannery, *Private Foundation Giving to Commercial Donor-Advised Funds* (Washington, D.C.: Institute for Policy Studies, 2022): 1-9, <https://inequality.org/wp-content/uploads/2022/03/Private-Foundation-Giving-to-Commercial-DAFs-Final.pdf>; Dan Heist, Danielle Vance-McMullen, Jeff Williams, and Brittany Keinker, *The National Study on Donor-Advised Funds* (Donor-Advised Fund Research Collaborative, 2024): 57-60, https://johnsoncenter.org/wp-content/uploads/2024/02/DAFRC_Report.pdf.

⁸ Alex Kotch, "How Fidelity, Schwab, and Vanguard Fund Hate Groups," *The New Republic*, August 9, 2023, <https://newrepublic.com/article/172927/fidelity-schwab-vanguard-charitable-donor-advised-funds-hate-groups>; Michael Theis, "'Hate Groups' Received Millions From 351 Charities and Foundations, Chronicle Review Finds," *Chronicle of Philanthropy*, February 3, 2021, <https://www.philanthropy.com/article/351-charities-and-foundations-directed-millions-to-hate-groups-chronicle-review-finds>; Abbas Barzegar and Zanaib Arain, *Hijacked by Hate: American Philanthropy and the Islamophobia Network* (Washington DC: Council on American-Islamic Relations, 2019), <https://ca.cair.com/losangeles/publications/hijacked-by-hate-american-philanthropy-and-the-islamophobia-network/>; see "Hate is Not Charitable," amalgamated Foundation, March 19, 2019, <https://amalgamatedfoundation.org/insights-and-initiatives/hate-is-not-charitable> for examples of funders that screens out hate groups.

⁹ Hannah Martin, Ellie Buteau and Kate Gehling, *The Funding Landscape: Nonprofit Perspectives on Current Issues in Philanthropy* (Cambridge: The Center for Effective Philanthropy, 2020), 6, <https://cep.org/portfolio/the-funding-landscape-nonprofit-perspectives-on-current-issues-in-philanthropy/>; "What's happening with donor-advised funds?" CalNonprofits, June 11, 2020, <https://calnonprofits.org/publications/article-archive/698-what-s-happening-with-donor-advised-funds/>; "Meet Our Members: Minnesota Council of Nonprofits," Initiative to Accelerate Charitable Giving, December 13, 2021, <https://acceleratecharitablegiving.org/meet-our-members-minnesota-council-of-nonprofits/>.

