EFFORTS TO CURB DONOR-ADVISED FUNDS (DAFs)

Executive Summary

Donor-Advised Funds (DAFs) are the fastest growing vehicle for charitable giving in the United States. A DAF, which must be sponsored by an IRS-qualified public charity like a Jewish Federation or Jewish Community Foundation, is a type of charitable grant-making and philanthropic planning fund that donors use solely to support qualified charitable organizations. These funds are owned and controlled by the sponsoring organization (Federation or Foundation) and donors make grant recommendations that are approved by the sponsoring organization to ensure both mission alignment and legal compliance. For Federations and Jewish Community Foundations, stewarding grants from donor advised funds to charitable organizations across the philanthropic sector is core to their mission.

A donation (of cash, stocks, cryptocurrency, etc.) to a DAF, which is irrevocable, qualifies for an immediate tax deduction. The money can then be given right away to a charity of the donor's choice (including, if desired, to the sponsor itself), or can be left in the DAF to increase in value and be distributed at a future date.

Five years ago, DAFs represented approximately **$6.3 billion** under management by Jewish Federations **(35% of total assets)**; they provided $870 million in grants. In the Spring of 2020, by contrast, Federations saw a nearly **30% increase in DAF grants** compared to the same period in 2019, much of this directed for crisis response. Moreover, planned-giving and endowment professionals credit DAFs with enabling **multi-generational commitments to charity**.

In a survey of 55 Jewish communities, DAFs played an increasing role from 2019 to 2020:

- **$1.5B granted in 2020 from DAFs and nearly $3B granted over two years**
- **10% increase in grants from DAFs**
- **Two-year average spend as a percentage of DAF assets was 20.2%**
- **Nearly $80M was granted from DAFs in direct response to COVID emergency fundraising (the true number was likely much higher, but not all communities tracked COVID-specific distributions)**

Nevertheless, attempts to curb DAFs are gaining political traction. These proposals seek to curtail DAFs in significant ways that could also seriously undermine other types of charitable vehicles from private foundations and endowments.

There are three key changes that anti-DAF advocates have proposed, all of which would diminish the assets of DAFs, discourage future contributions to DAFs, and—in an overarching way—decrease multi-generational giving through the DAF platform.

- Require a DAF to be **spent-down within 15 years**
- **Disallow tax deductions** at the time of contribution to a DAF
- Change current IRS rules for **valuing the deduction amount** of an asset

Support is growing in Washington for these anti-DAF proposals. Given the likelihood that Congress will raise taxes to offset costly COVID relief and infrastructure plans, these anti-DAF proposals could be attached to such legislative vehicles.

JFNA is strategically building allies across the charitable sector, educating champions in Congress, and mounting a public relations campaign to preserve the DAF in its current form.