

COMMENTS TO THE WORKING GROUP ON CHARITABLE AND EXEMPT ORGANIZATIONS

COMMITTEE ON WAYS & MEANS

April 8, 2013

Donor Advised Funds

Donor advised funds (DAFs) have been an important part of American philanthropy for more than 80 years and continue to be a vehicle for simple, flexible and cost-effective charitable giving. DAFs provide important benefits to charitable organizations across the country, including:

- Simplifying and reducing costs of the charitable grant making and recordkeeping process
- Enhancing oversight and compliance by insuring that all contributions are appropriate and grants are made to qualified charities for public purposes
- Helping to smooth charitable giving patterns during times of economic recession and provide a ready source of funds for disaster relief

Background

DAFs have existed since at least the 1930s at the New York Community Trust. Since that time - and especially over the past two decades - DAFs have grown substantially and become an increasingly important part of charitable giving.

A DAF is a separately-identified fund or account at a public charity (the "Sponsoring Charity"). The Pension Protection Act of 2006 formally defined DAFs within the tax code. A donor who contributes to a DAF (or the donor's designees) retains advisory privileges regarding distributions to charitable organizations and investment of the funds. Grants may be recommended to organizations that qualify as public charities under 509(a) of the Internal Revenue Code or to private operating foundations described in Section 4942(j)(3) of the Code. However, the sponsoring charity ultimately has control over grant-making and investment decisions.

DAFs are maintained by a broad range of sponsoring charities, ranging from community foundations, religious organizations, and universities, to operating public charities. Each sponsoring charity qualifies as a tax-exempt charitable organization by the IRS. Some DAFs are operated by sponsoring charities that focus on a specific geographical region or field of interest. Others, which are commonly called "national donor advised funds" or NDAFs because of the breadth of their charitable grant-making activity - operate DAF programs as their principal activity and are cause and community neutral.

In December 2011, the Treasury Department issued a report on DAFs and supporting organizations pursuant to a mandate in the Pension Protection Act of 2006 noted above. According to the report, there were 2,398 sponsoring charities of donor advised funds in 2006 and an aggregate of 160,000 separate donor advised funds. Today, our three organizations combined have over 75,000 separate donor advised funds, and over the last twenty years our donors have recommended over 4 million grants to over 370,000 recipient charitable organizations for a total of over \$21 billion.

Donor Advised Funds Enhance Charitable Compliance

DAFs improve charitable compliance by bringing simplicity, efficiency and oversight to the philanthropic grant-making processes. Our organizations' grant review processes ensure that only IRS qualified charitable organizations are eligible to receive grants. The grant review processes also reduce the potential for impermissible private benefits and other non-charitable purposes in connection with grants. In addition, each of our organizations provides donors with research tools to help them identify worthy charitable organizations and to help them avoid mistakes and fraudulent solicitations. Combined, the benefits of our donor advised fund programs ease the burden on the IRS by improving compliance and centralizing and simplifying the oversight of charitable contributions.

Donor Advised Funds Assist Funding of Charitable Operations

DAFs increase charitable giving generally, and also encourage active grant-making. Donors who have DAFs have reported that they have increased their charitable giving as a result of their DAFs and have recommended grants to a wider range of charitable organizations. DAFs also add value to recipient charitable organizations by making it easy and cost-efficient to donate gifts of appreciated securities to DAFs – assets that can be more difficult or expensive for many charitable organizations to accept on their own and then liquidate – and then the DAF sends easily processed checks to the recommended charities. Finally, and importantly, DAFs help to smooth giving in times of economic recession, and also serve as a ready source of charitable funds for relief organizations in the event of a natural or other disaster.

Summary

Donor advised funds appeal to a broad audience of donors, representing a range of economic backgrounds, ages and areas of the country. Donors to Fidelity Charitable, Schwab Charitable and Vanguard Charitable are also very engaged philanthropists, no matter the size of their donor advised fund. In the last ten years, our organizations in combination have sustained an average annual payout rate of approximately 26%¹ to recipient charities, which means that approximately every four years the assets are "turned over" through outgoing grants. With over 50 years of combined experience in applying best practices to the administration of

¹ Current year grants as a percentage of prior year ending assets (as noted on audited financial statements)

DAFs, our three charitable organizations believe we have provided substantial good to individuals, families and charitable causes across the country.

Submitted on behalf of:

Sarah Libbey, President
Fidelity Investments® Charitable Gift Fund

[REDACTED]
[REDACTED]
[REDACTED]
[REDACTED]

Kim Laughton, President
Schwab Charitable Fund

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Benjamin Pierce, President
Vanguard Charitable Endowment Program

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