Key Talking Points

DONOR ADVISED FUNDS

What is a DAF?

- Donor Advised Funds (DAFs) are a unique philanthropic tool. Donors create a fund at a community foundation that has the flexibility to make immediate distributions and to grow the fund for future gifts.
- DAFs are different from other funds because donors may choose to serve in an advisory role when the community foundation makes grants from the fund.

How do DAFs and Community Foundations Work Together?

- Community foundations help oversee and manage donations on behalf of families, individuals or organizations.
- Community foundations were chartered with the specific intent to increase the impact of charitable giving and build access to long-term philanthropic resources in the communities they serve, ensuring there is a pool of assets available during hard times.
- To protect donors' investments, the majority of community foundations voluntarily self-regulate through the National Standards for U.S. Community Foundations™. The Council on Foundations plays a leading role in protecting DAFs on behalf of community foundations.
- Together, DAFs and community foundations are bringing local solutions to the causes and issues that matter most.

What Makes DAFs unique?

- <u>DAFs Help Manage Complex Assets</u>.
  - Charitable giving encompasses more than just cash donations. Families and businesses can work with the community foundation to quickly and easily donate hard-to-value assets, and open family or corporate funds to further their charitable goals.
- <u>DAFs Promote Resident-Directed Community Building</u>.
  - Successful community building must be directed by residents with a collective understanding of community needs. Programs should not be dictated to residents but rather executed in the manner residents themselves deem appropriate.
- <u>DAFs Keep Endowments within Reach</u>.
  - DAFs ensure building an "endowment" (a permanent resource that is there both now and in the future) is NOT reserved only for large institutions and the very wealthy.
  - At community foundations across the country, families of varying income levels use DAFs as a way to sustain charitable giving into the future and/or involve their children in philanthropy.

Why Are DAFs Valuable?

- According to a new study by the Urban Institute's Center on Nonprofits and Philanthropy, which took in-depth look at impact of DAFs on communities across the country:
  - DAFS are flexible, allowing community foundations to quickly respond to local needs. DAF funds have been used to support everything from emergency response efforts to community economic development.
  - DAFs help increase the impact of charitable giving and build access to long-term philanthropic resources in our communities, ensuring assets can be used to address immediate needs or

support future development – much like a community savings account that promotes local accountability and responsibility.
  - DAFs appeal to donors of diverse ages and income levels, and often serve as an entry point into charitable giving and long-term community involvement. More than 70 percent of foundations report the average age of a DAF donor is between 46 and 64 years old.

How do DAFs Help Communities?

<u>TELL YOUR STORY.</u>

What is Congress' Threat against DAFs?

- Proposals have been discussed in Congress that challenge the fundamental and long-standing value of endowed philanthropy.
- One such proposal would require all DAF funds to be exhausted within five years or face an annual 20 percent excise tax penalty on any remaining money.
- Such shortsighted policies could significantly reduce charitable giving among diverse donors and threaten a community's ability to quickly respond to local needs.

What to Tell Congress:

- Policies discussed in Congress wrongly imply that DAFs by their very nature are somehow abusive of tax rules.
- DAFs build a "community savings account" that allows charitable funds to grow over time and respond to immediate and future community needs.
- Allowing donors to advise on when and how the community foundation makes grants from the fund results in positive public policy, not abusive tax practices.
- Congress must uphold current law regulating DAFs so communities can continue to benefit from the generosity of local donors.

Plain Language Definition – Donor Advised Funds (DAFs) are a unique philanthropic tool. Donors create a fund at a community foundation that has the flexibility to make immediate distributions and to grow the fund for future gifts. DAFs are different from other funds because donors may choose to serve in an advisory role when the community foundation makes grants from the fund.

Technical Definition - A fund may be classified as donor advised if it has at least three characteristics: (1) a donor or person appointed or designated by the donor has, or reasonably expects to have, advisory privileges with respect to the fund's distributions or investments, (2) the fund is separately identified by reference to contributions of the donor(s), and (3) the fund is owned and controlled by a sponsoring organization, such as a community foundation. A fund possessing these characteristics may be exempt from the donor advised fund classification if it grants to one single public charity or government unit or if the fund meets certain requirements applicable to scholarship funds. http://cfstandards.org/content/donor-advised-funds

Donor Advisor - a donor or person appointed or designated by the donor who has, or reasonably expects to have, advisory privileges with respect to the fund's distributions or investments. http://cfstandards.org/content/donor-advised-funds

Inactive Fund - Inactivity is often defined as a period in which there is an absence of grant recommendations. The period of inactivity that qualifies a fund as being "inactive" varies among community foundations but often falls within the 2–5 year range. In the commercial donor advised fund context, the IRS's actions indicate that they believe 3 years is an appropriate time period. A policy that allows a fund to remain inactive or dormant for more than 5 years will not likely be looked on favorably by regulators since 5 years is a long period for no distributions to be made from a fund. - See more at: http://www.cof.org/content/creating-inactive-funds-policy#sthash.iOAiz6p0.dpuf

Inactive Funds Policy – outlines statement of applicability, definition of an inactive fund, guidelines for how inactive funds will be handled, and any exceptions to the policy. - See more at: http://www.cof.org/content/creating-inactive-funds-policy#sthash.iOAiz6p0.dpuf

Spending Policy - A board approved policy that determines what percentage of a group of assets, such as an endowment, should be spent to cover both operating costs and grants of an institution. Typical spending rules combine calculations based on previous years' spending, the current year's income and investment return rates and the policy of the foundation covering grant commitments. http://cfstandards.org/process/finance-legal/11-investment-and-spending-policy

Successor - a person appointed or designated by the donor who has, or reasonably expects to have, advisory privileges with respect to the fund's distributions or investments

Succession Plan or Successor Advisor Election – fund founders may create a succession plan for a donor advised fund, naming individuals (usually naming individuals within two succeeding generation) to assume advisory privileges in the event the fund founder and fund advisor's death, resignation, inability, or unwillingness to advise the fund. According to the IRS, a foundation that administers donor advised funds is not required to offer the option of successor advisors. http://www.irs.gov/irm/part7/irm_07-020-008.html

Succession Policy/Guidelines – are created and approved by community foundation boards to provide parameters when a donor creates a donor advised fund, including a community foundation whether the community foundation allows for successors to be named for the donor advised fund and if successors can name additional successors. If successors are allowed, the community foundation works with the donor to create a succession plan. According to the IRS, a foundation that administers donor advised funds is not required to offer the option of successor advisors. http://www.irs.gov/irm/part7/irm_07-020-008.html

Variance Power - the community foundation board's power to modify any restriction or condition on the distribution of funds from the foundation, including donor advised funds. http://cfstandards.org/FAQ/what-variance-power

Endowed Fund - endowment funds that are established by donor-restricted gifts with the stipulation that principal must be invested and kept intact in perpetuity, while only the income generated can be used by the organization for grantmaking. The IRS refers to these funds as permanent or true endowments.

Non-endowed fund – funds that are established without a permanent principal balance and are immediately available for grant distribution.

The IRS recognizes additional types of endowments, including quasi-endowment, board-designated endowments, and temporarily restricted endowments. For purposes of the Urban Institute study, anything that is not permanent or true endowment as defined by the IRS was not included in endowed funds. www.irs.gov

Board-designated endowments, or **quasi-endowments**, are endowments established by the organization itself, either from unrestricted donor or organizational funds, over which the organization itself imposes restrictions on their use, and which restrictions can be temporary or permanent in nature. See **SFAS 117** (ASC 958-205-45).

Temporarily restricted endowments include endowment funds established by donor-restricted gifts that are maintained to provide a source of income for either a specified period of time or until a specific event occurs (see **SFAS 117** (ASC 958-205-45)), as well as all other temporarily restricted net assets held in a donor-restricted endowment, including unappropriated income from **permanent endowments** that is not subject to a permanent restriction.