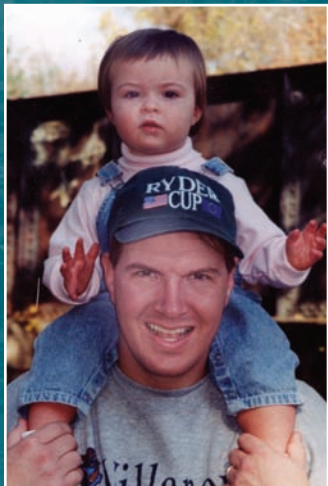


# Donor-advised Funds: A Face of American Philanthropy



COUNCIL *on* FOUNDATIONS

This booklet was initially produced and distributed for the 2007 Foundations on the Hill, an event co-sponsored by the Council on Foundations and the Forum of Regional Associations of Grantmakers. If you have any questions about donor-advised funds, please contact the Government Relations and Public Policy Department at the Council on Foundations. They can be reached by e-mailing [govt@cof.org](mailto:govt@cof.org) or by calling 202/466-6512.

**We**—as a society—are increasingly turning to philanthropy to address the challenges facing our communities. Government, in turn, must do all it can to encourage the giving spirit of the American people.

One of the most popular, effective, and democratic charitable giving vehicles is the donor-advised fund. These funds have one objective: to let people of any income level make their communities stronger.

With the enactment of the Pension Protection Act of 2006 (H.R. 4), Congress for the first time officially defined a donor-advised fund, creating new rules to ensure that such funds are not abused.

But despite these new safeguards, the *Pension Protection Act does not allow gifts to donor-advised funds to qualify for the bill's most important charitable giving incentive: the IRA charitable rollover.*

This booklet focuses on how donor-advised funds at community foundations strengthen and improve American communities. These funds are also versatile tools that other charitable organizations effectively employ to provide support to communities with shared interests in the arts, education, health, religion, and social services both inside and outside the United States.

## Julianna Doherty Fund

### *How One Family Is Helping Grieving Children in the Philadelphia Area*



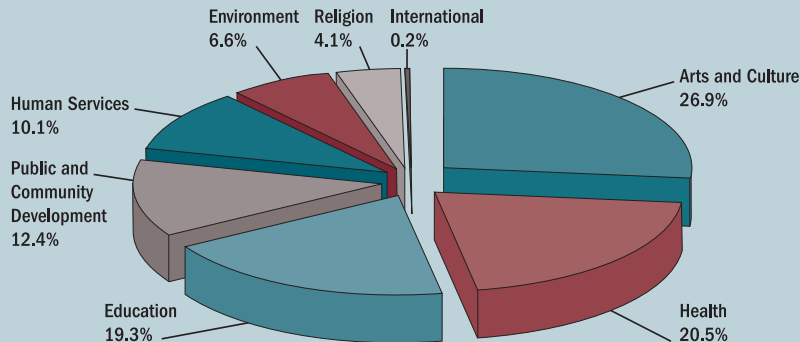
As any parent will attest, there is no greater pain than the death of a child. When three-year-old Julianna Doherty died in a car accident in October 2001, her family created the Julianna Doherty Fund to honor her memory.

Administered by the Philadelphia Foundation, the fund helps families and children improve their lives despite obstacles. To help raise money for the fund, Julianna's father and a group of friends have pledged to hike the entire Appalachian Trail: Each summer they hike a new segment. Since the hike began, the fund has raised and donated more than \$98,000 to charitable causes.

Over the years, the fund has donated money to several groups that support grieving, ill, and deserving children. In particular, \$52,000 in grants from the fund supported the Center for Grieving Children, Teens and Families in Philadelphia. The center supports children and families who have experienced a tragic loss and do not have the means to pay for counseling.

## Donor-advised Fund Distributions

The Philadelphia Foundation 2004–2006



*The chart shows how donor-advised funds at the Philadelphia Foundation support these specific categories.*

# What Is a Donor-advised Fund?

**T**he Pension Protection Act of 2006 was a milestone: Recognizing the importance of donor-advised funds, Congress for the first time acknowledged this charitable tool by defining it.

Simply stated, a donor-advised fund is a charitable vehicle in which a donor contributes cash or assets to create a fund in a “sponsoring organization,” such as a community foundation.

The donor, or someone the donor names, makes recommendations to the sponsoring organization about how the funds should be used. Some donor-advised funds will be fully expended during the donor’s lifetime; others will be a permanent legacy, benefitting communities into the future.

The sponsoring organization educates donors about community needs and about the charities that are working effectively to meet those needs. The sponsoring organization also takes care of the administrative details—tax, legal, and accounting matters.



**A donor-advised fund as defined by the Pension Protection Act of 2006 is any fund or account:**

- Which is separately identified by reference to the contributions of a donor or donors
- Which is owned and controlled by the sponsoring organization
- With respect to which a donor or person appointed by the donor has or reasonably expects to have advisory rights with respect to investments or distributions

# Why Do People Establish Donor-advised Funds?

- **A generous spirit:** The most important reason why donors establish advised funds is they are generous and committed people with a passion for their causes and their communities.
- **Community focus:** People who establish donor-advised funds with community foundations gain access to the foundations' knowledge of and experience with a range of local charitable organizations. Through events, newsletters, and site visits, donors can learn about effective charities and programs that they may not have discovered on their own. Community foundation staff can also help donors establish their philanthropic goals and devise giving strategies to meet those goals.
- **Legacy:** Donor-advised funds can be set up as permanent funds, preserving the donor's legacy long after the donor has passed away.
- **Stewardship opportunities:** Community foundations and similar public charities employ skilled professional investment managers to increase the value of donors' gifts, thus maximizing the benefit to the community.
- **Accountability:** Community foundations are overseen by a public board of directors that reflect their community. These organizations conduct annual audits and file Form 990—making key financial information available to the public.
- **Affordability:** Donors only need a minimum amount, as determined by the sponsoring organization, to set up a donor-advised fund. For example, community foundations have minimums as low as \$10,000 and many also offer “acorn” funds, allowing donors to build up to the minimum.

- **Ease:** Because a public charity supervises activities and ensures that fund distributions are for legitimate charitable purposes, there is no need for a donor to establish a new organization or to seek IRS approval. The sponsoring organization administers the details, freeing donors to focus on philanthropy.

## Arlene and Ross Thompson Advised Fund

### *Planning Ahead: How One Michigan Couple Stays Engaged in the Community*



Retired business owners Ross and Arlene Thompson have been residents of Midland County, Michigan, since 1962. Though they retired in 1994, the Thompsons continue to make substantial philanthropic contributions to the community through their donor-advised fund—the Arlene and Ross Thompson Advised Fund—at the Midland Area Community Foundation.

“The donor-advised fund has helped our charitable long-term giving,” said Ross. “If we hadn’t set up the fund when we did, we would find it difficult on our present income to contribute as we are currently able to do.”

Today, the Thompsons work with the community foundation to meet a wide variety of needs. Organizations that the fund has made grants to include Little Forks Conservancy, West Midland Family Center, and the Friends of Boca Grande Community Center (Florida).



## The David Brooks Memorial Endowment Fund

### *Colorado Citizens Benefit from One Family's Initiative*

The David Brooks Memorial Endowment Fund was established in memory of David Brooks, who died in 1995 at the age of 12, due to an undetected heart defect. David's parents, Paul and Laurie, and sister, Jessica, wanted to do something in David's memory to help other children with heart problems. They learned that automatic external defibrillators (AEDs) could save lives. Realizing the importance of having AEDs accessible in an emergency, the Brooks family wanted to place these devices in schools. While AEDs are available in many places such as colleges, businesses, and health clubs,

very few Colorado K-12 schools carry them. The Brooks family began by making a donation from their son's memorial fund—which is managed by the Denver Foundation—to help purchase AEDs for public schools. But the family decided to go even further: they approached their state senator to sponsor legislation so that all school districts are required to accept donated AEDs. In April 2005, then Colorado Governor Bill Owens (R) signed Senate Bill 170—David's Law—requiring all schools to accept donated AEDs. In addition, the bill also protects a Good Samaritan who, acting out of good faith,



helps someone by using an AED in an emergency. As of January 2007, the David Brooks Memorial Endowment Fund has placed AEDs in 15 Colorado school districts.



# Benefits to the Community

**M**ost donors want their advised funds to support a specific focus within their community.

## How Do Donor-advised Funds Benefit the Community?

- **Support local causes:** Individual contributions strengthen and add to the health of the overall community.
- **Allow anyone to be a philanthropist:** Donor-advised funds aren't only for the rich or ultra rich—anyone can set one up.
- **Encourage personal interests:** Donor-advised funds are expressions of individual philanthropy in a public charity setting.

## Donor-advised Funds Play a Positive, Active Role in Community Life

As this booklet shows, donor-advised funds make a positive impact in communities across America by supporting causes as diverse as education, public health, and the arts.



## Marion and Don Weiss Advised Fund

### *Grant Affects Cultural Life in Northwestern Louisiana*



As long-time residents of the Shreveport-Bossier metropolitan area, Marion and Don Weiss were interested in helping support charitable, educational, medical, conservational, environmental, cultural, and religious causes. In 1988, they established the Marion and Don Weiss Advised Fund at the Community Foundation of Shreveport-Bossier.

Since that time, the Marion and Don Weiss Advised Fund has made grants to numerous organizations in the Shreveport-Bossier area. One organization in particular

that has benefited from the fund is the Shreveport Symphony Orchestra—Louisiana’s oldest, continually operating professional orchestra. Since 2000, the fund has supported the orchestra’s concerts and other programs. According to Scott Green, executive director of the orchestra, the fund “has provide[d] a base of professional musicians creating music, education, and community programs that profoundly impact the cultural life of Shreveport-Bossier communities.”

In addition to supporting the Shreveport Symphony Orchestra, the Marion and Don Weiss Advised Fund has also contributed to other local agencies such as KDAQ Public Radio, United Way of Northwest Louisiana, and Sci-Port Discovery Center.

# Community Foundations Are Charitable Giving Experts

**C**ommunity foundations pioneered the development of donor-advised funds. These funds remain vital to the continued growth of community foundations.



## What Is a Community Foundation?

A community foundation is a publicly supported organization created by and for local citizens to benefit their community. Community foundations pool gifts, both large and small, to meet local needs, build the community's capacity to help itself, and *improve the quality of life for all the community's residents.*

Because community foundations know and understand local needs, they are especially suited to educate and help people with their charitable contributions through personalized service and local expertise. Donors gain access to the community foundation's professional staff to learn about community needs and to identify innovative and effective community projects.

These characteristics make community foundations ideal for administering donor-advised funds.

## The Kendall Fund

# *Rural Georgia Communities Benefit from Donor-advised Fund Literacy Program*

Steve and Laraine Kendall came to the Community Foundation for Greater Atlanta inspired by the notion that private philanthropy can help create economic opportunities in rural Georgia. Through their donor-advised fund, the Kendall

family began to tackle the issue of literacy in rural Georgia.

The Kendall Fund partnered with the Ferst Foundation to create the Georgia Rural Library Initiative. The initiative focused on placing books in libraries and developing libraries as a primary literacy and education resource for children in counties that lack such resources.

How did they do this? In each county, the funders created community action teams, composed of community and educational leaders who pledged to

improve childhood literacy. These community action teams developed their own partnership plan, which included goals, budgets, and fundraising needs. The teams were required to report back on accomplishments and evaluations.

Based on local needs (as identified by the teams), the Kendall Fund grants money each year to support local libraries—from keeping them open to improving collections to encouraging children to use libraries. However, the fund's greater contribution has been teaching and promoting the growth and value of literacy in rural communities.



# How Recent Legislation Affects Donor-advised Funds

**A**s mentioned earlier, Congress recognized (defined and regulated) donor-advised funds in the Pension Protection Act of 2006.

## 1. IRA Charitable Rollover

One section in particular—IRA Charitable Rollover—permits persons who have reached age 70 1/2 to exclude from their income up to \$100,000 a year in retirement plan assets if they contribute the money to a qualifying charity. However, the act excludes gifts to donor-advised funds.

Some donors—we will never know how many—decided not to take advantage of the IRA charitable distribution because they could not make distributions to their advised funds. Many other donors chose a “second-best” option making a permanently restricted gift that benefited a single charity. This alternative offers no flexibility in the future to adjust spending to meet changing community needs. It also tends to penalize smaller, less well-known charities in favor of those that are better known to donors.

By not allowing donors to make IRA distributions to advised funds, Congress took away an individual’s right to make his or her own choices about charitable giving.

## 2. Katrina Emergency Tax Relief Act of 2005

After Hurricane Katrina devastated the Gulf Coast, Congress passed the Katrina Emergency Tax Relief Act of 2005. The bill included a number of charitable incentives, the most important of

**W**e believe donor-advised funds are an important part of our philanthropic efforts to serve societal needs.

We wanted you to understand their role. We look forward to working with you in ways that allow philanthropy to grow in its service to the common good.

which gave taxpayers a one-time chance to deduct charitable contributions up to the entire amount of their incomes. Unfortunately, the tax break did not cover money given to donor-advised funds. In other words, Congress specifically excluded donor-advised funds from this incentive.

### **3. Treasury Department Study**

As part of H.R. 4, Congress directed the Department of the Treasury to conduct a donor-advised fund study. The language directs the department to report back on four issues: whether there should be changes in the charitable deduction allowed for gifts to donor-advised funds depending on how the contributed assets are used, taking into account whether those assets benefit the donor; whether donor-advised funds should be subject to a mandatory payout requirement; whether retention of advisory privileges should cause loss of an immediate tax deduction because the donor has not made a completed gift; and whether these concerns arise for other types of charities or gifts. This study to Congress will be completed by late summer 2007.





# How Congress Can Help

**D**onors establish advised funds for a variety of reasons. Perhaps the most important reasons are because they want to leave a legacy and make a difference in their communities. These individuals are serious about charitable giving, and Congress should do its part by supporting and growing philanthropy.

Specifically, Congress should support the growth of philanthropy by extending the IRA charitable distribution provision and allowing donors to choose to direct those distributions to donor-advised funds.

Donor-advised funds are a vital and growing part of philanthropy. These funds are a critical and important source for supporting innovative and effective programs that address local needs and improve the community's well-being.

We ask Congress to support policies designed to strengthen philanthropy in all its forms and preserve a donor's ability to make philanthropic choices. Donor-advised funds are an integral part of philanthropic expression and community support.

For more information, please contact the Council on Foundations' Government Relations and Public Policy Department at 202/466-6512 or [govt@cof.org](mailto:govt@cof.org).





COUNCIL *on* FOUNDATIONS

1828 L Street, NW, Suite 300

Washington, DC 20036-5168

202/466-6512 • fax 202/785-3926

[cof.org](http://cof.org)