

April 28, 2014

The Honorable Kenny Marchant
U.S. House of Representatives
1110 Longworth HOB
Washington, DC 20515

RE: Improving the IRA Charitable Rollover

Dear Representative Marchant:

As leaders of community foundations across your state, we are writing to express our strong support for the IRA Charitable Rollover, which expired at the end of 2013, along with a modification that would greatly enhance our ability to create and grow community philanthropy in Texas. The matter is of some urgency, given that the tax extenders bill (which includes the IRA Rollover) could be marked up by the Ways and Means Committee this spring.

In the current deliberation over extenders, we strongly support not only extension of the current IRA Rollover provision, but also expanding it to include additional charitable giving vehicles. While the IRA Rollover has proven to be a valuable incentive for charitable giving, we believe that effect can be greatly amplified if it is expanded.

For several years, legislation has been introduced (“The Public Good IRA Rollover Act”) that would expand the benefit of the IRA Rollover to additional philanthropic vehicles. We support that approach. **Of particular importance to us is that the expansion would allow the Rollover to be used with donor-advised funds (DAFs).** Community foundation donors frequently use DAFs to engage in philanthropy that directly impacts the quality of life where they live, or where they have a historical connection. The current exclusion of DAFs directly impacts every community foundation and many potential donors. With the incredible rise in popularity of the DAFs that we manage, we believe that expanding the Rollover to these funds would channel even more dollars to address the broad range of needs in Texas.

In the past, there were some concerns about isolated abuses by a few DAFs, but during consideration of the Pension Protection Act (PPA) of 2006, Congress passed a number of reforms that were approved as part of the PPA with bipartisan support. For example, since the PPA was enacted, a donor cannot use a DAF to recommend grants to individuals, private foundations, or for non-charitable purposes. And, DAF administrators must generally liquidate any closely-held business interests within five years.

Now, eight years later, these reforms have been a success. They have allowed the DAF to flourish as an efficient, cost-effective tool for smart charitable giving in Texas and around the country.

Through the community foundations in Texas, it is likely that more than \$200 million in charitable grants will be awarded this year. A huge number of those grants will come from DAFs, which democratize philanthropy for thousands of donors as an easy way to invest in their communities. DAFs are a cheaper, more flexible alternative to creating a private foundation and they promote generous charitable giving. They also help people be less reactive and more thoughtful about their charitable giving, increasing the bottom-line impact of those charitable dollars in the community. They fund everything from early childhood programs that prepare more kids for being ready to learn, to programs that address the needs of assault victims and help to identify their attackers, to filling backpacks with food for hungry kids to take home from school on Friday afternoons when there likely will be no other food for them over the weekend. DAFs are a major part of the philanthropy in our state.

The Pension Protection Act required the Treasury Department to conduct a study on DAFs. The study found that the PPA reforms addressed the abusive practices. Therefore, the contribution deduction rules applied now to donors to DAFs should be the same as those for other public charities.

This is the key point about which we are writing to you today: Treasury has said that since the avenues for abuse have been closed, DAFs should now be subject to the same rules as other public charity vehicles. Yet, under the IRA Rollover, they are not. Once the reforms in the PPA were implemented, the rationale for exclusion of DAFs in the Rollover became outdated. The continued exclusion relates much more closely to the traditional extenders process since the IRA Rollover was enacted (i.e. date changes, no policy changes), rather than any continued intent of Congress to single out this increasingly popular philanthropic tool.

In short, it no longer makes sense to allow the IRA Charitable Rollover to be used for other types of endowments, but not allow it for DAFs that provide direct benefits to your community. Under the current version of the IRA Rollover, a donor could use it to give to a university endowment, or to the endowment of a local hospital or art museum—but they couldn't build *community* endowment by contributing to a donor-advised fund at their local community foundation. The current rule hurts the ability of the more than 20 community foundations in Texas to grow community philanthropy.

Every community foundation can give examples of how they lose donations each year because a potential donor, upon learning that they cannot use the IRA Rollover to open a DAF, struggles with how to use that gift for their philanthropy—or doesn't give at all. Because current DAF payout rates are generally substantial—in most cases, more than twice the private foundation payout rate—the current prohibition doesn't promote greater giving. It only restricts donor flexibility by codifying a preference for one type of charity over another.

Fixing this single provision when the IRA Charitable Rollover is extended would have a positive impact in communities all across Texas. It is one of the top policy priorities for the roughly 750 U.S. community foundations. Removing the prohibition will help promote community philanthropy at a time the charitable sector is being asked to do more to help those in need.

Donor-advised funds are powerful tools—both for average people who want to make lasting commitments to their communities, as well as those with significant financial resources who are looking for an alternative to a private foundation. Rarely does an opportunity come along to do so much good for communities across Texas by enacting such a simple, straightforward policy change.

Also, donors do not receive a tax deduction for making an IRA Charitable Rollover gift, so there is no immediate tax benefit to the taxpayer for allowing DAFs to be included—just a more efficient use of resources for the public good.

Thank you very much for your attention to this matter, and we all stand ready to answer any questions that you or your staff may have. We hope that you will work with other Ways and Means Committee members to fix this provision and boost community philanthropy.

Sincerely,



Jim Pendergast, President & CEO
Austin Community Foundation



Paul Urban, Executive Director
Community Foundation of the Texas Hill Country



Karen W. Selim, President & CEO
Coastal Bend Community Foundation



Mary M. Jalonick, President
The Dallas Foundation



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Guy McCrary, President & CEO
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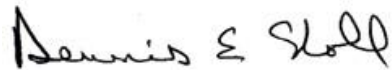
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