

REVISED 11/2016 (to reflect new payout rate formula)

DONOR-ADVISED FUNDS: AN OVERVIEW USING IRS DATA

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Abstract: For nearly a decade, the Statistics of Income Division of the Internal Revenue Service (IRS) has been the primary source of data on donoradvised funds (DAFs) sponsored by nonprofit charitable organizations taxexempt under Section 501(c)(3) of the Internal Revenue Code. The data, from stratified random samples, show that the number and size of DAF sponsoring organizations has grown substantially since Tax Year 2006. Some 2,121 sponsoring organizations reported nearly \$53 billion in DAF accounts for Tax Year 2012. The largest DAF sponsors each held over \$1 billion in accounts; meanwhile, about 60 percent of the organizations reported less than \$1 million. Though the median DAF payout rate was 10.0 percent for Tax Year 2012, nearly 22 percent of the sponsoring organizations reported no grants made from their DAF accounts. In each year for which statistics have been collected by the IRS, sponsoring organizations have received aggregate contributions in excess of aggregate grants paid. Despite challenges in data collection and analysis, SOI is committed to remaining the best source of data for this important part of the nonprofit sector.

The Internal Revenue Service (IRS) describes a donor-advised fund (DAF) as “a separately identified fund, or an account that is maintained and operated by a section 501(c)(3) organization . . . composed of contributions made by individual donors.” The key feature of a DAF lies in the following: “Once the donor makes the contribution, the organization has legal control over it. However, the donor . . . retains advisory privileges with respect to the distribution of funds and the investment of assets in the account.”¹

Charitable organizations have maintained donor-advised funds in one form or another for nearly 100 years. However, the current formal definition of a DAF was entered into in the Internal Revenue Code (IRC) after the Pension Protection Act of 2006 was signed into law. Since then, both the number of nonprofit charitable

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¹ IRS Donor-Advised Funds Guide Sheet Explanation, July 31, 2008.

organizations sponsoring DAFs, and the total value of those DAFs, has increased significantly. The number of sponsoring organizations rose from 1,779 for 2006 to 2,121 for 2012, while the total value of all DAFs reported for these tax years increased from \$32.6 billion (in constant 2012 dollars) for 2006 to \$52.9 billion for 2012. This paper presents a picture of the current DAF environment, shows trends and fluctuations since 2006, and describes some of the limitations of DAF reporting.

The IRS's Statistics of Income Division (SOI) collects and analyzes financial data for the U.S. Treasury Department's Office of Tax Policy and the Joint Committee on Taxation, a non-partisan Congressional committee, as well as other Federal agencies, organizations and the public. SOI bases its annual study of exempt organizations on a stratified random sample of Form 990, *Return of Organization Exempt from Income Tax*, (and the shortened version, Form 990-EZ) information returns selected on the basis on an organization's total assets. This study includes estimates on DAFs sponsored by nonprofit charitable organizations exempt under 501(c)(3) of the IRC and is just one of the many SOI datasets used for tax policy research.

CHALLENGES IN DATA COLLECTION AND ANALYSIS

Since the Form 990 re-design for Tax Year 2008, nonprofit charitable organizations exempt under IRC Section 501(c)(3) have been required to report information on DAFs on Form 990, Schedule D. For Tax Years 2006 and 2007, filers reported DAF information on multiple different parts of the Form 990.² Unlike certain other parts of the Form 990, filers are not required to provide backup information for the data they report on DAFs. For this reason, it can be a challenge for SOI tax examiners and analysts to identify and correct erroneous reporting in this area. Experience shows that a number of filers, often small organizations, do not understand the legal definition of a DAF as set forth in the IRS regulations, resulting in statistically unreliable information reported on the form. To the extent possible, SOI takes steps to eliminate or correct egregious filer errors during the transcription and closeout processes during its annual study.

There is another limitation of the DAF data available from Form 990 Schedule D. Sponsoring organizations are not required to report itemized information on each DAF account they maintain. Such data would provide two benefits. (1) They would provide backup information to be used in a quality review process during data collection and

² Prior to Tax Year 2006, the only reference to DAFs on the Form 990 was the following question on Schedule A: "Did you maintain any separate account for participating donors where donors have the right to provide advice on the use or distribution of funds?"

analysis; and (2) they would allow deeper analysis of sponsoring organizations' holdings and activities.

A PORTRAIT OF DONOR ADVISED FUNDS

Most financial analyses of the nonprofit sector show that the bulk of the financial activity and holdings lie with a very small percentage of charitable organizations. Unsurprisingly, this pattern is true for DAFs as well. Of the estimated 2,121 charitable organizations that maintained at least one DAF account in Tax Year 2012, some 60 percent could be classified as "small" sponsoring organizations; that is, their portfolio of DAFs totaled less than \$1 million (Figure A). Additionally, 37 percent of the organizations were considered "medium" (total DAFs between \$1 million and \$100 million); while just 4 percent had DAF holdings over \$100 million and were classified as "large." However, these large sponsoring organizations accounted for 75 percent of the total value of DAFs held by the sector (about \$43 billion). The small organizations, by contrast, held just one half of one percent of the total.

The largest of the large sponsoring charities (seven organizations) each reported over \$1 billion in total funds for Tax Year 2012 (Figure B). These organizations cited the operation and management of the DAFs as their primary charitable activity, and reported nearly all of their assets as donoradvised funds. Led by Fidelity Charitable, this elite group reported nearly \$25 billion in DAFs from over 100,000 individual funds. Community foundations, the most common type of sponsoring organization, also reported the vast majority of their total assets in the form of DAFs. On the other end of the spectrum, certain other charitable organizations sponsored DAFs as part of multifaceted fundraising or development campaigns for their organizations. These charities, primarily colleges and universities, reported aggregate DAF values of less than one percent of their total asset portfolio.

As mentioned earlier, data from the Form 990 does not include information on individual DAF accounts within a sponsoring organization. However, it can be useful to look at the average size of the individual accounts. Based on the average reported value of DAF accounts, SOI created a quartile distribution of sponsoring organizations (Figure C). For Tax Year 2012, half of the organizations maintaining DAFs reported an average account value between \$82,000 and \$380,000, with a median value of nearly \$178,000. However, because a subset of organizations reported extremely high average DAF values (Q4 ranged from \$380,000 to \$25.6 million), the mean value for all DAF holdings was \$560,000. Part of this aggressively skewed distribution could be due to filer error. Of the 47 organizations with an average DAF value of \$1 million or more, nearly half reported maintaining only one or two accounts. Without backup information, however, it is difficult to know which, if any, of these organizations reported erroneously.

One way to look at the performance of sponsoring organizations is through their “DAF payout rate.” While there is no single agreed-upon payout formula, the following calculation can be derived from data on Form 990 Schedule D:

$$\frac{\text{Aggregate grants from DAFs}}{(\text{Aggregate DAF value at beginning of year})^3}$$

Using this calculation, the median DAF payout rate for 2012 was 10.0 percent of the total value of funds held by the sponsoring organization (Figure D). Over a quarter of the organizations reported a payout rate slightly over 4 percent, including 466 organizations that reported no grants paid out at all.

TRENDS IN THE DAF SECTOR

From Tax Years 2006 to 2012, the number of organizations sponsoring DAF accounts grew 19 percent, from 1,779 to 2,121 (Figure D).⁴ For context, over this same period, the total number of 501(c)(3) organizations filing Forms 990 decreased 22 percent. In comparison, while volatile from year-to-year, the net change in the total number of DAFs was a 56-percent increase between Tax Years 2006 and 2012. Additionally, after adjusting for inflation, the total value of all DAFs has risen dramatically (up 55 percent) in the past 2 years to nearly \$53 billion (in constant 2012 dollars), following a relatively flat period between Tax Years 2006 and 2010. As part of this study, SOI tracked the inflows (contributions) and outflows (grants) from DAFs over the same 7-year period, 2006-2012 (Figure E). Using inflation-adjusted data reported by organizations on both the contributions to and grants paid out of DAF accounts, the graph shows the total annual surplus (or deficit) reported by all sponsoring organizations. With exception of 2008, when the contributions to DAFs dropped to a level nearly equal to grants, organizations maintaining DAFs have taken in more contributions than they have distributed each year. Sponsoring organizations reported the largest surplus in Tax Year 2012: over \$7.5 billion. The final graphic shows a comparison of total contributions to all nonprofit charitable organizations with contributions to DAFs within sponsoring organizations (Figure G). Since Tax Year 2006, total contributions reported by charities have shown incremental increases and decreases, with a cumulative, inflation-adjusted gain of just over 10 percent. Over

³ “Aggregate DAF value at beginning of year” is not a line item on Form 990. It can be calculated by adding “Aggregate value at end of year” and “Aggregate grants from,” and subtracting “Aggregate contributions to.”

⁴ SOI collected the data for Tax Years 2006 through 2012 from Forms 990 filed in Calendar Years 2007 through 2014.

the same six-year period, contributions to DAFs increased by over 80 percent, with most of the gains realized in Tax Years 2011 and 2012. The donor-advised fund universe is a complex and growing part of the nonprofit sector in the 21st century. While the data reported to the IRS on Forms 990 are not without limitations (in both content and quality), they remain one of the best sources of information on both individual sponsoring organizations and the aggregate DAF universe. Like all IRS Statistics of Income data, those on DAFs have been, and will continue to be, used as the basis for financial analysis and to frame tax policy discussions.

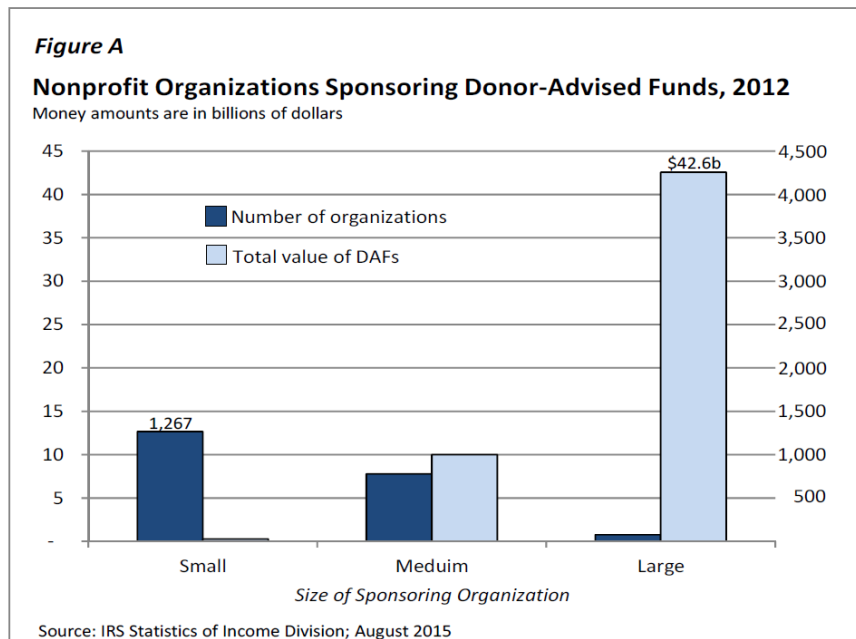


Figure B

Top Ten DAF Sponsoring Organizations, 2012

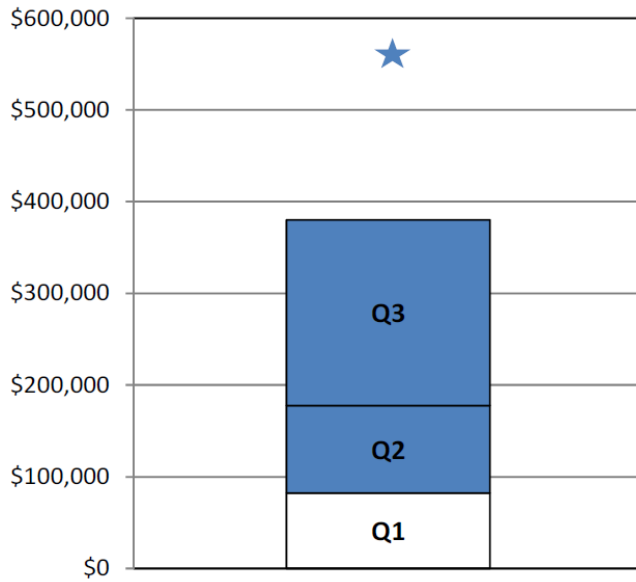
Money amounts are in billions of dollars

| Fund | Value |
|---|--------|
| Fidelity Investments Charitable Gift Fund | \$10.2 |
| Schwab Charitable Fund | 4.8 |
| Vanguard Charitable Endowment Program | 3.6 |
| Silicon Valley Community Foundation | 1.7 |
| National Philanthropic Trust | 1.6 |
| National Christian Charitable Foundation | 1.2 |
| Jewish Communal Fund | 1.2 |

Source: IRS Statistics of Income Division; August 2015

Figure C

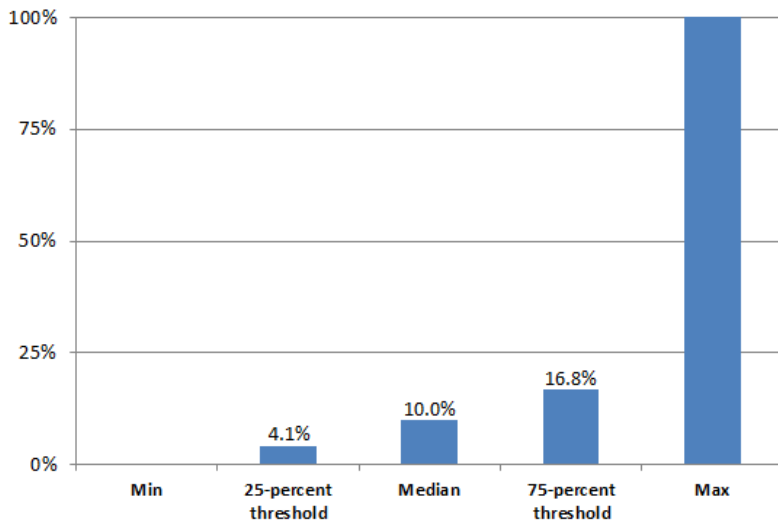
Distribution of Average Value of Individual Donor-Advised Funds, 2012



Source: IRS Statistics of Income Division; August 2015

Figure D

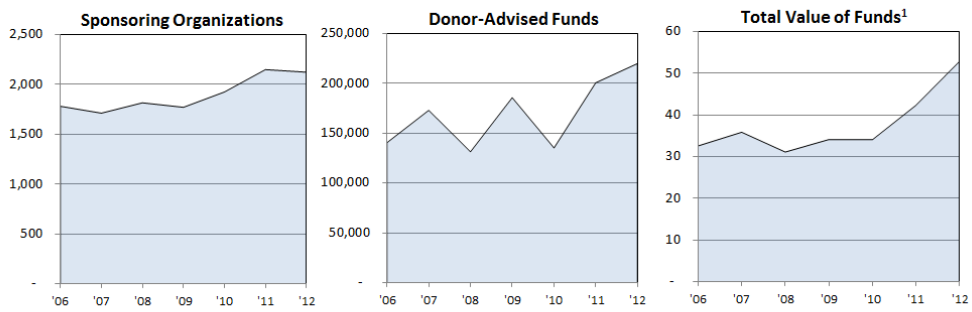
Payout Rates for Sponsoring Organizations, 2012



Source: IRS Statistics of Income Division, November 2015

Figure E

Selected Data on Donor-Advised Funds and Sponsoring Organizations, 2006-2012



¹ Money amounts are in billions of constant 2012 dollars
Source: IRS Statistics of Income Division; September 2015