Donor-Advised Funds, Donors Trust and SPEA:
Questions and Answers

Q1: What is a Donor-Advised Fund?
A: A Donor-Advised Fund (DAF) is a philanthropic vehicle that allows donors to make a contribution to a charity, receive a tax benefit, and recommend how the funds are awarded over time. A DAF is an account that is maintained and operated by a 501(c)(3) sponsoring organization. Organizations described in section 501(c)3 of the US Internal Revenue Code are eligible to receive tax-deductible contributions and are commonly referred to as charitable organizations.

Q2: What is a charitable organization?
A: A charity is nonprofit organization that is organized and operated exclusively for a recognized exempt purpose, including religious, educational, scientific, and charitable purposes broadly defined. There are two classes of charities: private foundations and public charities. The latter provide greater tax advantages to donors and account for more than 90% of the 1.2 million IRS-registered charities. This class includes all traditional charities (i.e., churches, universities, social service agencies, animal welfare groups, arts & cultural organizations, international aid agencies, united ways, and community foundations) as well as the organizations that sponsor DAFs.

Q3: When were the first DAFs created?
A: Donor-advised funds have been in existence in some form since the 1930s, originally under the auspices of community foundations. During the 1990s, for-profit financial investment firms began to establish affiliated nonprofit organizations to maintain donor-advised fund accounts and expand these types of services to their investors.

Q4: How common are gifts to DAFs?
A: In 2017, six of the top ten US charities, based on contributions received in the prior year, were DAF sponsors, including Fidelity Charitable Gift Fund, Schwab Charitable and National Christian Foundation. Donors Trust is ranked 206. For the last two years, Fidelity Charitable Gift Fund (which houses 108,482 DAFs, its only product), has surpassed every other US charity in total annual contributions, including United Way, The Salvation Army, the American Red Cross, Feeding America and Catholic Charities. In 2015, the number of individual DAF accounts (not DAF sponsors) outnumbered U.S. private foundations by more than three-to-one.

Q4: Who uses a DAF?
A: Active philanthropists of all types can use DAFs – individuals, families, corporations, private foundations and other organizations. The entry point for DAFs has a wide range based on the sponsoring charity’s policies. Some allow donors to open a DAF with $1,000, while others start at $100,000.
Q5: Why have DAFs become so popular?

A: The popularity of DAFs reflects how simple they are to use and their flexibility, but also the marketing capacity and interests of major commercial investment firms with affiliated sponsoring charities. Fidelity, Schwab, and Vanguard have been particularly successful in doing so, but virtually all major investment companies have developed DAFs and DAFs are known to be particularly popular with some religious groups.

Q6: Why are DAFs criticized for a lack of transparency?

A: Under IRS rules, public charities, including DAFs, are not required to publicly disclose who makes contributions to them (private foundations must do so). Once a contribution is made, the charity has legal possession of the fund (although the donor still has advisory privileges as to its distribution) and therefore will be listed as the source of the contribution. Both liberal and conservative DAFs have been criticized for this lack of transparency.

Q7: Do donors earn a tax break if they give their money to a DAF?

A: Contributions to a DAF are treated as contributions to any public charity and are deductible to the maximum allowable degree, as constrained by the IRS Code. Donating publicly traded securities are one of the most common ways of funding a DAF and, if the security is held for more than one year, it can be donated at its fair-market value.

Q8: Why do donors give to a DAF fund rather than directly to a favored nonprofit?

A: Most donors give directly to their favorite charities, but DAF accounts provide some financial and administrative advantages. First, DAFs operate like a charitable savings account, where the dollars can be invested and grow tax-free over time, allowing for larger, more impactful grants in the future to a favored nonprofit. Second, if donors have an unusually large influx of funds in one year, they can donate the assets to a DAF, thus receiving significant tax benefits at the time of the donation, but postpone having to decide which charities will receive the funds. Third, individuals can use the assets in their DAF to maintain a consistent level of donations to their favorite charities, even if their income or investments drop during a year. Fourth, individuals may not want to donate a bulk asset to one charity, but split it among numerous charitable beneficiaries by donating the asset to a DAF and then directing the DAF to make separate grants from it. Fifth, many charities may not be able to accept complex assets such as real estate, privately-held stock, LP or LLC interests, insurance or even simpler assets such as appreciated stock. Instead, individuals can donate these to a DAF and direct the DAF to send checks to the charities. Finally, DAFs are simple to establish and easy and inexpensive to use. Instead of receiving numerous tax receipt letters from all of the charities they would otherwise directly support, donors receive just one annual tax-receipt letter from the DAF sponsor.

Q9: Are donor-advised funds designed only for conservative donors?

A: No.
Q10: What is the largest DAF that caters to liberal donors?

A: The Tides Foundation explicitly caters to liberal donors, with a vision of “A world of shared prosperity and social justice, founded on equality and human rights, a sustainable environment, healthy individuals and communities, and quality education.” At the end of fiscal year 2015 (latest available), Tides Foundation reported net assets totaling $150 million. The conservative Donors Trust reported net assets of $168 million.

Q11: What is Donors Trust?

A: Donors Trust is a 501(c)(3) sponsoring organization of DAFs. The organization itself espouses the values of “limited government, personal responsibility, and free enterprise”, and emphasizes the goal of securing donor intent. It was established in 1999 and is currently run by President and CEO Lawson R. Bader, formerly President of the conservative Competitive Enterprise Institute. Donors Trust is associated with the Donors Capital Fund, a related DAF sponsoring organization with a higher contribution entry rate. Although Donors Trust is not required to report from whom it has received contributions, several major conservative organizations have reported giving to Donors Trust and/or Donors Capital Fund. These include the Searle Freedom Trust, the Richard and Helen DeVos Foundation, and the Charles G. Koch Foundation.

Q12: How much money has SPEA received from Donors Trust or Donors Capital Fund?

A: SPEA has never received any funds from either of these nonprofit organization. However, the IU Foundation is listed as one of their recipients, suggesting that at least one unit at IU is receiving funds from Donors Trust.

Q13: Is it true that Donors Trust is being sued for a lack of transparency?

A: No. In 2013, the Center to Protect Patient Rights (CPPR) and Americans for Responsible Leadership (ARL), two nonprofits largely funded by the Koch brothers, settled a civil case brought by the California Fair Political Practices Commission and the California Attorney General. The settlement requires CPPR and ARL to pay $1 million to the State General Fund for their failure to disclose two independent expenditure contributions in the 2012 election to oppose Proposition 30 (Temporary Taxes to Fund Education) and support Proposition 32 (Paycheck Protection Initiative).

Q14: Does Donors Trust focus its giving on “climate denial” think tanks and advocacy groups?

A: Donors Trust supports such organizations, but also many other types of organizations. For the most recent listing see http://www.guidestar.org/FinDocuments/2016/522/166/2016-522166327-0e92e26a-9.pdf. Prior years are also available through Guidestar.org. It is not feasible to determine what fraction of Donors Trust donations are used for “climate denial” activities.
Q15: Is there a link between Koch funding, Donors Trust and the “climate change counter-movement”?

A: The term climate change counter-movement (CCCM) is defined as organized activities to raise doubt about climate science or resist public policies to address climate change. It appears that some funders of CCCM organizations have shifted from direct support to indirect support through DAFs. For example, data indicate that Koch Affiliated Foundations were once major CCCM supporters but they have pulled back from publicly funding them. From 2003 to 2007, the foundations were becoming increasingly important for funding CCCM organizations, but their publicly traceable contributions to CCCM organizations declined in significance between 2006 and 2010 (the most recent year for which data are available). Coinciding with the decline in traceable funding, the amount of funding given to CCCM organizations by Donors Trust/Capital has risen dramatically (https://link.springer.com/article/10.1007/s10584-013-1018-7).

Q16: Do companies and trade associations give to Donors Trust?

A: DAF sponsoring organizations, such as Donors Trust, are not required by law to reveal the names of their donors, so that information is not publicly available. The president of Donor’s Trust confirms that most of the funds DT administers are set up by individuals. As of January, 2018, it has no funds set up by corporations. Businesses can open a DAF with which to engage in corporate giving and deduct contributions to the DAF up to a maximum of 10% of taxable income for that tax year. Trade associations are exempt from federal income taxes, so there are no tax-advantages for them to establish DAFs. However, if they were to make grants to 501(c)(3) charities, they would need to report those on their own Form 990 (Return of Organization Exempt from Income Tax Form), just as DAFs must do.

Q17: Do the Koch brothers give to Donors Trust?

A: DAF sponsoring organizations are not required to reveal the names of their donors. Tax records show that The Knowledge and Progress Fund, a charity funded by Charles Koch, gave $2 million in 2010 to Donors Trust.

Q18: Can donors who give to Donors Trust, or any DAF sponsoring organization, require that their donations be awarded to a specific group?

A: No. Once a donor makes a contribution, the sponsoring organization has legal control over the funds. The donor, or the donor's representative, only retains advisory privileges with respect to the distribution of funds and the investment of assets in the account.