

Important New Initiative on DAF Reform

01.20.25 | Linda J. Rosenthal, JD



“Simply put, we believe that U.S. charitable funds should be used to benefit the public” and not tied up in “unproductive repositories.”

That’s the mission statement of a major new initiative called Philanthropy Project formed in 2024 to “mobilize nonprofit influence on the critical and beneficial role regulation and public accountability have for American philanthropy.”

The goal is “base building” for the long term: “preparing nonprofit supporters for times when legislative processes are more open to regulatory improvement.”

It’s headed up by two of the luminaries of the charitable community: Jan Masaoka, former CEO of the California Association of Nonprofits, and Jon Pratt, former executive director of the Minnesota Council of Nonprofits.

The impressive “Working Group” of “Leaders Committed to Philanthropic Reform” includes other well-known names including: Ray Madoff (Professor of Law, Boston University); Ruth McCambridge (Editor-in-Chief Emerita, The Nonprofit Quarterly); Chuck Collins (Inequality.org, Institute for Policy Studies) and Aaron Dorfman (Committee for Responsive Philanthropy).

The Problem

The focus is on the “serious standstill regarding transparency and accountability for the \$1.5 trillion dollars in tax-exempt funds currently held by foundations and donor-advised funds.” Among the problems is that “... the financial services industry has grown to exert a powerful influence on the regulation and reporting of” those trillions of dollars....”

In a tab called “Worth Reading” on the new website are selections including:

- [Donor-Advised Funds Now Consume a Quarter of Individual Charitable Giving](#)(December 22, 2023) Helen Flannery, *inequality.org*. [“The three highest-earning DAF sponsors each take in more than double the donations of the highest-earning operating charity.”]
- [Ten of America’s 20 Top Public Charities Are Donor-Advised Fund Sponsors](#) (May 8, 2024) Helen Flannery & Chuck Collins, *inequality.org* [“Until quite recently, private foundations were the favorite charities of the wealthy, but DAFs have now left those foundations in the dust.”]
- [How Transparent Philanthropy Can Liberate Billions of Dollars — and Do More Good](#) (March 12, 2024) Kevin McPherson, Pooja Wagh, Peter B. Kaufman & Jeff Ubois, *The Chronicle of Philanthropy* [“By sharing knowledge and data, grant makers can make their giving more accessible, equitable, and – crucially – effective.”]
- [New Poll Shows Support for Charity Reform Across the Political Spectrum](#) (March 6, 2024) Chuck Collins & Michael Hartmann, *inequality.org* [“There’s surprising, cross-partisan consensus on the current state of charitable giving and the incentives our tax system provides to donors.”]
- [It’s Time for Foundations to Interrogate Perpetuity, Even If That Means Spending Down](#) (October 2, 2024) Mike Scutari, *Inside Philanthropy* (paywall)

The Solution

The organizers of the Philanthropy Project “...believe expectations for federal and state law, and the role of state attorneys general, need to be updated and enforced.

To begin with, the Project’s policy efforts will emphasize four areas:

- Adjust the “timing of the tax deduction” for donations to DAFs to better match when the funds are available for active use for charitable purposes.
- Change the private foundation-to-DAF transfer rules in connection with the 5% payout requirement.
- Close loopholes in the definition of “qualified distribution.”
- “Tighten transparency requirements for philanthropy and financial services to philanthropy, and enforce reporting compliance — uses of funds, intermediaries, payments to financial advisors, joint ventures, effective control.”

The “overall approach” is “to deepen awareness and public discussion of these issues by serving as a community clearinghouse of current events, opinion, and research on philanthropic reform subjects.... [and] to build and strengthen a constituency driving reform of philanthropy from the perspective and experience of organizations most directly affected by its actions.”

See, for example, recent posts from the website’s Focal Point tab:

- [The Unbearable Lightness of Donor-Advised Funds](#) (December 2, 2024) Jan Masaoka, *PP Focal Point*
- [DAF Universe Spawning FinTech Startups](#) (December 9, 2024) Jon Pratt, *PP Focal Point*

Conclusion

As "... a creative mix of thinkers and doers, with nonprofit leaders, researchers, community activists, law professors, donors, and more...", the Philanthropy Project invites you to join in this effort and to tell them what "you think needs to be addressed."

– Linda J. Rosenthal, J.D., FPLG Information & Research Director