Foundation and DAF Payout Reform Would Unlock $339 Billion for Working Charities over the Next Three Years

*Simple changes to outdated laws would generate major benefits for working charities — along with hundreds of millions in tax revenue.*

By Chuck Collins, Bella DeVaan, and Helen Flannery

Our philanthropic sector has seen better days. Ultra-wealthy donors have gained ever greater tax benefits and influence from their giving while our working charities have been hard hit by a decline in dependable funding. Currently, an estimated $1.7 trillion sits in private foundations and donor-advised funds (DAFs). Those donations, ostensibly earmarked for philanthropy, can languish in go-between funds and keep our working charities dangerously under-resourced.

Things don’t have to be this way. Public opinion, nonprofit leaders, and even a critical mass of fed-up donors have coalesced behind good-faith, common sense charity reform proposals that would dramatically recalibrate the fairness and efficiency of America’s vital third sector.

As legislators get ready to overhaul the tax code in 2025, we’re hopeful that this can be a watershed moment for charity reform. It’s high time to refresh the rules governing philanthropy to move money off the sidelines.

In this policy brief, we attempt to quantify the transformative effects of certain reforms, hoping that our estimates inspire Congress to act upon this opportunity. Politicians who claim to care about the health of our democracy should take notice: Passing these broadly popular reforms would unlock $339 billion in charitable contributions that have already been tax exempted over the next three years.
Summary of Donations Unlocked from Bold Charity Reform Proposals

<table>
<thead>
<tr>
<th>Reform Proposals</th>
<th>Estimated Additional Revenue to Charity over the Next Three Years (2025-2027)</th>
</tr>
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<tbody>
<tr>
<td><strong>Private Foundation Reforms</strong></td>
<td></td>
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<tr>
<td>Raising private foundation payout requirement to 10% of assets for foundations with assets of $50 million or more, and to 7% for all other foundations</td>
<td>$134.6B</td>
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<td>And excluding private foundation overhead expenses above 1% of assets from counting towards payout</td>
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<td><strong>Total</strong></td>
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IPS analysis of data from the Internal Revenue Service and the National Philanthropic Trust. Estimates are based on the most recent five years of publicly available data (2018 to 2022). Projections assume typical historical rates of asset and grant growth for foundations and DAFs.
**Donations Unlocked by Proposals Related to Private Foundations**

Based on our research, increasing the minimum payout rate requirement for foundations to 10 percent for foundations with assets of $50 million or more, and increasing it to 7 percent for all other foundations, would raise an estimated additional $44.9 billion for working charities each year from 2025 to 2027, reaching a total of $134.6 billion over those three years.

Disallowing foundations from counting any overhead expenses that are more than 1 percent of total assets from their annual payout would raise an additional $6.2 billion per year on top of what would be raised from the payout reforms, reaching a total of $18.6 billion over those three years.

And disallowing foundations from counting any grants to donor-advised funds from their annual payout would raise an additional $7.5 billion per year on top of what would be raised from the payout and overhead reforms, reaching a total of $22.4 billion over those three years.

**Donations Unlocked by Proposals Related to Donor-Advised Funds**

Based on our research, implementing a requirement that all individual donor-advised fund accounts must pay out any funds donated to those accounts — including interest earned on those funds — within five years of donation would raise an estimated additional $32.7 billion for charity each year from 2025 to 2027, reaching a total of $98.1 billion over those three years.

Disallowing donor-advised fund accounts from counting grants to other donor-advised funds as part of that payout would raise an estimated additional $21.8 billion per year on top of what would be raised from payout reform, reaching a total of $65.5 billion over those three years.
Additional Federal Excise Tax Revenue Generated by Charity Reform

The payout reforms described above would have indirect tax revenue impacts as well: They would generate additional revenue for the U.S. Treasury through increased excise taxes on undistributed funds for private foundations and DAFs that fail to meet the increased payout mandate.

Excise taxes on undistributed funds are levied at 30 percent on any foundation funds that weren’t paid out to charity as required in previous years. When implementing a five-year DAF payout requirement, we would recommend that the government levies the same excise tax structure on DAFs as well.

Over three years, we estimate that these reforms would raise an additional $128 million in direct government revenue from private foundations and $51 million in revenue from donor-advised funds over the three years from 2025 to 2027, for a combined total of $180 million.

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<th>Reform Proposals</th>
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IPS analysis of data from the Internal Revenue Service and the National Philanthropic Trust. Estimates are based on the most recent five years of publicly available data (2018 to 2022). Projections are based only on excise taxes on undistributed funds, and assume typical historical rates of asset and grant growth for foundations and DAFs.
**Estimate Methodology for Private Foundations**

**Payout Reform**

All of our estimates for private foundations use publicly available tax return data from the IRS for foundations that filed electronically in each year.

In 2022, US foundations reported $111.8 billion in charitable distributions on their tax forms. Of those distributions, $35 billion came from foundations with less than $50 million in assets, and $76 billion came from foundations with $50 million or more in assets.

Our estimates assume that foundations that currently pay out at less than the new 7 percent/10 percent payout requirement would raise their payout to meet the new requirement, and that foundations currently paying out at the new 7 percent/10 percent payout requirement or more would not change their behavior. In 2022, foundations paying out at less than the new requirement would have had to pay out an additional $36.4 billion more than they actually did to meet the new requirement for their size. ($32.1 billion of this would come from foundations with $50 million or more in assets, and $4.3 billion would come from foundations with less than $50 million in assets.)

Using a methodology developed by economist James Andreoni, we calculated that the implied average annual growth rate of foundation assets from 2018 to 2022 was 5.4 percent for foundations with less than $50 million in assets, and 5.3 percent for foundations with $50 million or more in assets.

Using these estimated annual growth rates, and assuming that additional grants to charity would grow at roughly the same rate as assets, we calculated that the additional revenue moving to charity would be $42.6 billion in 2025, $44.8 billion in 2026, and $47.2 billion in 2027, for a total of $134.6 billion over those three years.

**Overhead Reform**

To calculate the additional revenue to charity that would be raised by excluding overhead over 1 percent of total assets, we assumed that foundations that currently pay out at less than the new 7%/10% payout requirement without including overhead over 1 percent of assets would raise their payout to meet the new requirement without including that extra overhead, and that foundations currently paying out at the new 7 percent/10 percent payout requirement or more without including that extra overhead would not change their behavior.

In 2022, foundations paying out at less than the new requirement without including the extra overhead would have had to pay out an additional $41.4 billion more than they actually did to meet the new requirement for their size, and to not include extra overhead when they did so.

Applying the same estimated annual average asset growth rates as above, we calculated that the additional revenue moving to charity from the overhead reform alone would be $5.9 billion in
2025, $6.2 billion in 2026, and $6.5 billion in 2027, reaching a total of $18.6 billion over those three years.

This means that the additional revenue moving to charity from the combined payout rate and overhead reforms would be $48.4 billion in 2025, $51.0 billion in 2026, and $53.8 billion in 2027, reaching a total of $153.3 billion over those three years.

It is, of course, possible that under this overhead reform proposal, not all of the additional overhead costs would go back into grantmaking. But there is no real precedent for estimating the proportion of these costs that would be used for other expenses, rather than grants. For this reason, therefore, we have given foundations the benefit of the doubt, and assumed that they would plow any overhead above 1 percent of assets back into grantmaking.

**Foundation-to-DAF Grant Reform**

To calculate the additional revenue to charity that would be raised by excluding both grants to DAFs as well as overhead over 1 percent of total assets, we assumed that foundations that currently pay out at less than the new 7 percent/10 percent payout requirement without including either DAF grants or overhead over 1 percent of assets would raise their payout to meet the new requirement without including those DAF grants or that extra overhead, and that foundations currently paying out at the new 7 percent/10 percent payout requirement or more without including those DAF grants or that extra overhead would not change their behavior.

In 2022, foundations paying out at less than the new requirement without including either DAF grants or the extra overhead would have had to pay out an additional $47.5 billion more than they actually did to meet the new requirement for their size, and to not include either DAF grants or extra overhead when they did so.

Applying the same estimated annual average asset growth rates as above, we calculated that the total additional revenue moving to charity including the overhead and DAF grant reforms would be $55.5 billion in 2025, $58.5 billion in 2026, and $61.6 billion in 2027, for a total of $175.7 billion over those three years. This total is $22.4 billion greater than the total for the payout and overhead reforms by themselves.

**Excise Tax Revenue**

Excise tax revenue for private foundations is composed of two parts: excise taxes on net investment income, and excise taxes on undistributed funds subject to the minimum payout requirement. For the purposes of these estimates, we have only considered the second type — excise taxes on undistributed funds — since they are most directly related to payout rate requirements.

We have estimated the additional excise tax revenue generated from key payout reforms using the assumption that private foundations would have the same proportion of excise taxes due on the extra amount they would need to distribute to charity to meet the new payout requirement as are due on their existing qualifying distributions. And we have only projected these
additional excise taxes for those foundations that currently are not meeting the existing 5 percent payout requirement.

To estimate the amount of additional excise tax revenue that would be generated by key payout reforms, therefore, we first calculated the actual amount of taxes due on undistributed funds for foundations in 2022 that did not meet the existing 5 percent payout requirement. We then calculated the excise tax paid on undistributed funds as a percent of total qualifying distributions. We then applied these percentages to the additional distributions necessary for these foundations to meet the new payout requirement as appropriate for their asset size to arrive at the total estimated excise taxes due.

**Estimate Methodology for Donor-Advised Funds**

**Payout Reform**

Unfortunately, because of a lack of disclosure rules, it is not possible to discover the payout rates of individual donor-advised fund, or DAF, accounts. This makes it difficult to calculate estimates of typical DAF payout, and estimates must rely on publicly available aggregate payout rates.

For this reason, our estimates rely on the proportion of DAF accounts that are estimated to pay out nothing in a given year. Various studies have reported the proportion of DAF accounts that pay out nothing as anywhere from one fifth (from the IRS), to roughly one third (from the Council of Michigan Foundations and the DAF Research Collaborative). For these estimates we have relied on the most recent of these analyses, that of the DAF Research Collaborative, which reported that 37 percent of the DAF accounts in their sample paid out nothing in any given year.

To calculate the additional revenue to charity that would be raised by implementing a five-year payout requirement on individual DAF accounts, we assumed that the 37 percent of DAF accounts that currently pay out nothing in any given year would instead pay out an average of 20 percent of their assets each year (with an eye towards meeting a 100 percent payout goal, on average, over five years).

We assumed no behavior change for all other DAF accounts.

In addition, the actual DAF assets, grants, contributions, and number of DAF accounts we used in our estimates come from those reported by the National Philanthropic Trust in their annual DAF Report.

In 2022, US DAF sponsors had 1,948,545 individual DAF accounts with a total $228.9 billion in assets. This means that each individual account has an average of $117,462 in assets.
We estimate that 37 percent of the total accounts, or 720,962 accounts, paid out nothing in 2022. Assuming that each of these accounts held the average amount in assets, this totals $84.7 billion in assets held in zero-paying accounts that year.

If, under the pressure of a five-year payout requirement, all of these zero-paying accounts paid out at 20 percent instead of paying nothing, that would have resulted in an additional $16.9 billion in revenue being paid out to charity in 2022.

Since no information is publicly available about DAF expenses, we are unable to calculate an implied rate of growth for DAF assets. Instead, we calculated the historical average annual rates of growth in DAF account numbers, assets, and grants over the five years from 2018 to 2022, and used these rates of growth to project growth in additional revenue to charity in future years.

Using these estimated growth rates, we calculate that the additional revenue moving to charity under a five-year payout requirement would be $27.4 billion in 2025, $32.4 billion in 2026, and $38.3 billion in 2027, reaching a total of $98.1 billion over those three years.

**DAF-to-DAF Grant Reform**

To calculate the additional revenue to charity that would be raised by excluding grants to DAFs, we assumed that DAFs that currently make grants to other DAFs would instead replace those grants with grants to working charities.

For our estimates of DAF granting, we looked at the publicly available tax returns for DAF sponsors that filed electronically in 2022. We considered grants to be DAF-to-DAF grants only if DAF assets made up 90 percent or more of total assets for both the grantor and the grantee.

Using these criteria, in 2022, we estimate that DAF sponsors paid out an estimated $8.1 billion in grants to other DAF sponsors. Assuming that DAF-to-DAF grants would grow in the future at roughly the same rate as overall grants from DAFs have in the past, we calculate that the amount granted from DAFs to other DAFs would be $16.8 in 2025, $21.4 billion in 2026, and 27.3 billion in 2027, reaching a total of $65.5 billion over those three years — the additional amount that would move to charity if these DAF accounts were required to replace these grants with grants to working charities instead.

**Excise Tax Revenue**

Since there is no historical precedent for rates of payout requirement compliance for donor-advised funds, we have assumed that their rates of payout compliance — and thereby the proportion of excise taxes they would have to pay on undistributed funds — would be similar to that of private foundations.

Specifically, our estimates assume the following (all percentages are foundation actuals for 2022):
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• All DAF accounts have equal amounts of assets and distribute equal amounts of grants
• All DAF accounts would pay out 1/5 of their assets each year for five years
• On average, a fifth of DAFs would have to pay out entirely each year
• The same percentage of fifth-year DAF accounts would miss their payout requirement as private foundations miss theirs (26 percent)
• The fifth-year requirement-missing DAF accounts would be in arrears by the same same percentage of that year’s total grants as requirement-missing private foundations (1.1 percent)
• These undistributed DAF funds would be subject to the same excise tax rate as foundations (30 percent)

We used these assumptions to calculate estimates of additional excise revenue for DAF accounts under a five-year payout requirement for 2022, based on actuals for national, community foundation, and single-issue DAFs from the National Philanthropic Trust’s annual DAF Report. We then projected them for 2025 through 2027 using historical rates of asset and grant growth.

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