Maislin: Change to donor tax rule could hurt charities

By Stephen D. Maislin | August 1, 2017 | Updated: August 2, 2017 11:25am

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Houston nonprofits rely heavily on the generosity of individuals and families to help them address some of our most challenging problems.

These donors are responsible for supporting programs that feed the hungry, provide educational opportunities for children, fight deadly diseases and support faith-based communities in every corner of our region.

And while we typically think of giving as something that happens through the church collection plate, at fundraising events, or in response to appeals, we often overlook an important but misunderstood vehicle that is responsible for a huge portion of giving in our community.

Donor-advised funds (DAFs) are used by thousands of Houston donors who are working to address urgent and long-term issues. In 2016 alone, more than $107 million in grants to 3,750 grantees (a large majority in Houston) was provided through DAFs at Greater Houston Community Foundation.

At a time when nonprofits are facing increased need and new financial pressures, this money is vital to our community's well-being. DAFs provide important flexibility for donors, who can quickly set up and disburse funds and, in some cases, build funds for a future charitable use.

Congress has been largely supportive of these funds - in part because of the freedom they provide. But as lawmakers begin to tackle tax reform, it is important that this freedom isn't threatened by unnecessarily changing the way these funds are administered.

Some members of the U.S. House's Ways and Means Committee have been discussing plans to require DAFs to grant a minimum portion of their assets each year.

On the surface, such a move appears to make sense. Private foundations like the Houston Endowment are required to pay out at least 5 percent of their assets annually. DAFs, meanwhile, do not have a required payout.

As a result, it is possible for some donors to store money in these funds without granting it to nonprofits.

But such a move is a solution to a problem that doesn't exist - especially among DAFs that are housed at community foundations, where the average payout is about three times that rate - about 15 percent nationally. In Houston, the payout rate is even higher - ranging between 18 percent and 20 percent annually from 2014 to 2016.

TRANSLATOR

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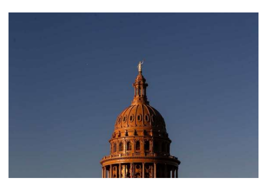

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Critics argue the average payout rate hides the fact that a few funds with high payouts mask a whole lot of funds with no payouts - and, as a result, people are getting a charitable deduction and then letting the money sit.

However, this isn't how things work in practice.

Most funds make grants regularly, and those that aren't typically set aside funds for a big gift in the future - using investment returns to make those gifts even larger.

DAF sponsors are willing to do something to promote fund activity among all funds, but a forced payout will have the opposite result Congress intends because it will reduce overall giving. By setting a floor of 5 percent, for instance, donors are likely to set 5 percent as their giving benchmark - which is much lower than the 15 percent national average.

Many donors choose this vehicle because they want the freedom to give without the red tape that comes through many other giving vehicles. Jay Steinfeld and Barbara Winthrop, for example, set up Donor Advised Funds at Greater Houston Community Foundation to address immediate needs with very little administration.

The couple created its DAF - Grateful for a Cure: GSD Research Fund - to help find a cure for a rare illness called glycogen storage disease. Within a month of opening the fund, they were able to raise and disperse the resources for critical research that has been approved by the National Institutes of Health.

Had they chosen to set up a private foundation - or search for a nonprofit to collect and administer the funds - they would have been unlikely to support this urgent research. And, they never would have been able to create this impact so quickly.

Changing the rules - and installing new regulations - actually has the potential to slow giving. In turn, changes would have a negative impact on our community. Houstonians cannot afford this change.

Maislin is president and CEO of the Greater Houston Community Foundation.