



CORONAVIRUS

EXPLAINER

CONGRESSIONAL
PROGRESSIVE
CAUCUS CENTER

Emergency Charity Stimulus for COVID-19 Recovery

Last Updated: July 16, 2020

This explainer draws on research and analysis by the Institute for Policy Studies, Patriotic Millionaires, Wallace Global Fund, the National Philanthropic Trust, and other organizations.

Over the last three months, [more than 46 million workers](#) have filed for unemployment insurance, [nearly one in three](#) apartment tenants couldn't make April rent, and the pandemic is causing ["record levels" of food insecurity](#). This crisis demands that wealthy, private philanthropists do their fair share. That's why experts and philanthropists alike are calling for an Emergency Charity Stimulus from foundations and Donor Advised Funds to support the nonprofit sector, [the third-largest employment sector in America](#), and to provide vitally needed public services in the recovery.

\$200 Billion in Stimulus That Doesn't Cost Taxpayers a Dime

Current federal law requires philanthropic foundations (in exchange for favorable tax treatment) to spend a minimum of [just 5% of their endowment](#) every year, which often includes salaries for program staff and other operating costs. The average annual payout is barely 7% per year — even though large charities can earn more than that [just by investing](#) their assets in the stock market. As a result, America's private foundations have accumulated over \$1 trillion in assets, but many foundations spend only a small percentage of their funds on the public good. At the same time, these foundations encourage the concentration of private wealth and philanthropic power over generations — contrary to their tax-advantaged status and mission to serve the public interest.

Another side of the same question is the growth of donor advised funds (DAFs), which receive an ever-growing share of philanthropic dollars, largely from individuals looking to park their money in tax-advantaged accounts. By moving money into DAFs, wealthy individuals and families can take a full tax deduction on the amount of the contributions in the year they were made — with no minimum payout obligation to direct those resources to charitable purposes.

To help address the COVID-19 crisis, Congress should **raise the minimum payout rate for foundations from 5% to 10% for three years**, and **introduce a mandatory payout from DAFs for the first time**. This easy change would **pump \$200 billion of emergency stimulus into the economy at no cost to taxpayers** — a [wildly popular idea](#) across the political spectrum. Money that's currently sitting in endowments and DAFs would be released to support educational needs, carry out cultural programming, build affordable housing, [feed families](#), help unemployed workers, and advance racial justice.

Private Foundations Are Raising Payout Rates — But Only on a Voluntary Basis

Even outside of a congressional mandate to increase payout rates, some of America's largest and most influential philanthropies have [committed to increase their payout](#) rates in the face of the coronavirus pandemic. These include:

- *Ford Foundation*: Giving away an additional \$1 billion over the next two years, by issuing a combination of 30- and 50-year bonds whose proceeds will be earmarked for grants that advance environmental, social, and corporate governance goals.
- *John D. and Catherine T. MacArthur Foundation*: Committed to increase giving in the next year by issuing a \$125 million bond and assessing whether more is needed.
- *Wallace Global Fund*: Committed to give away one-fifth of \$120 million endowment this year.

This strong demonstration of support should be applauded. But at the same time, these voluntary commitments are not binding, and hundreds of billions of dollars are still being warehoused while social needs go unmet. Only a change in the federal tax laws governing foundations would ensure that a reliable share of philanthropic dollars go to serve the social, cultural, and economic needs facing Americans today.

Donor Advised Funds Should Be Governed by the Same Payout Obligations

According to the [2019 DAF Report](#) from the National Philanthropic Trust, contributions to donor-advised funds increased by 20.1 percent to \$37.12 billion in 2018, and the accumulated assets in DAFs grew from \$112.10 billion in 2017 to \$121.42 billion. This [wealth is warehoused](#) in donor-advised funds housed inside community foundations, as well as Charitable Gift Funds affiliated with for-profit financial institutions like Fidelity, Schwab, and other giants, which profit from their ability to provide financial services for these funds as well as their closer affiliation with high-net-worth families.

Unlike private foundations, most DAFs are still operated under the direction of the original, living donors. While the DAF administrators ensure that funds are granted only to eligible charities, the living donors have extensive guidance over the causes, amounts, and frequency of gifts. In principle, DAFs offer families and individuals the chance to make [rapid payouts in an emergency, such as the COVID-19 pandemic](#). In practice, however, DAFs do not provide a defined timetable or minimum payout obligation for the donors to direct the funds toward charitable or societal purposes, which means that [financial institutions can only encourage, not require](#), donors to increase their payouts.

By establishing a minimum 10% annual payout requirement for DAFs, an Emergency Charity Stimulus policy could reverse the incentives among wealthy individuals and families to [warehouse their money in tax-sheltered DAFs](#) without supporting any societal or charitable goal. [Over 500 philanthropists](#) called for the nation's 728,000 donor-advised funds to meet a 10% annual payout requirement, which would generate over \$12 billion in support for charitable causes in the first year.

This policy change would be extremely popular among the public: An [Ipsos poll](#) in May 2020 shows that 93 percent of Americans found it unacceptable that DAFs have no legal obligation to disburse funds to charity, and 79 percent feel strongly that DAFs should have required minimum payouts and greater transparency.

What Donors and Experts Are Saying

“Remember: These funds are basically subsidized by ordinary taxpayers. For the wealthiest donors, every dollar parked in their foundation or DAF reduces their tax obligations by as much as 74 cents, leaving people of more modest means to cover public programs.” -[Morris Pearl, Chair of Patriotic Millionaires, and Chuck Collins, inequality expert](#)

“I’ve been appalled for years how many foundations treat the 5 percent federal floor as a ceiling and refuse to spend a penny more than they are required to. If in our hour of greatest need, America’s greatest crisis in generations, philanthropies are planning to spend less, then they need a big kick in the butt. Only Congress can deliver that kick.” -[Scott Wallace, co-chair of the Wallace Global Fund](#)

“Although the Emergency Charity Stimulus proposal clearly originates on the political left, it will surely attract some support on the Hill from the populist right as well ... this sort of unorthodox coalition between populists from both the right and left is precisely what has fueled the most-significant philanthropic reforms in the past.” -[William Schambra, Senior Fellow at the Hudson Institute and conservative philanthropy scholar](#)

“We in the philanthropic world should step up now and recognize the role we must play in addressing our nation’s many needs. Every foundation in America should pledge to increase its payout to at least 10 percent over the next two years.” -[Alan Davis, President of the Leonard and Sophie Davis Fund and member of Patriotic Millionaires](#)