Winds of change and headwinds: Legislation and inflation

You've no doubt noticed that donor-advised funds have been featured more prominently over the last few weeks in financial and wealth management publications. That's in part because the Accelerating Charitable Efforts Act was reintroduced in the House of Representatives on February 3, 2022. The legislation contains the same proposed law changes as the bill introduced in the Senate in July 2021, which stalled.

Portions of the bill are designed to address concerns that donor-advised funds are not required to make distributions to charities according to any timeframe or monetary level. The ACE Act proposes to create four new categories of donor-advised funds, each with different tax consequences to the donor.

Donor-advised funds are excellent charitable planning tools for many situations, including for individuals and families who want to organize a regular stream of giving to community organizations and unlock illiquid assets to do so. Indeed, the proposed legislation recognizes special categories of donor-advised funds established at community foundations, referred to as Qualified Community Foundation Donor Advised Funds, which are treated favorably for tax deduction purposes.

We're tracking closely the various conversations surrounding this proposed legislation, including a proposal by some community foundations that calls for a five percent aggregate minimum payout and other measures to address concerns while also maintaining the characteristics of donor-advised funds that motivate more charitable giving overall, especially as Millennials catch on to this particular vehicle to fund their charitable priorities.

As with any proposed legislation, no one can predict whether or when new laws impacting donor-advised funds will be enacted, and if they are, what parts of the proposed legislation will be included in the version that becomes law. What we can tell you, though, is that we are watching this legislation very carefully, on a daily basis, just as we do with any proposed legislation that could significantly impact your clients' charitable giving strategies. You will hear from us if changes are enacted. In the meantime, please reach out with questions.

Potential legislative changes aren't the only choppy waters as 2022 gets into full swing. Charities are impacted by inflation, and your clients may wish to take that into account in their charitable giving plans for 2022. Certainly as your clients' purchasing power dips, so does their ability to make charitable contributions. But, it's possible that the charities your clients love to support are feeling the sting to an even greater degree. This might sway your clients toward maintaining–or even increasing–their historical charitable giving budgets and perhaps even adjusting those budgets for inflation. Be mindful, though, that even the possibility of inflation can have a significant psychological effect on your clients, impacting everything from their confidence as consumers to attitudes toward (and longing for??) Girl Scout Cookies.

The team at the community foundation has decades of experience working with advisors and donors through economic ups and downs. We're happy to be a sounding board as your clients evaluate whether and how to adjust their charitable giving in 2022, especially in cases where establishing a fund at the community foundation can help achieve both a client's and a charity's objectives.