



Highlights of [GAO-06-799](#), a report to the Chairman, Committee on Ways and Means, House of Representatives

Why GAO Did This Study

Donor-advised funds and supporting organizations are two charitable-giving options that have received attention from Congress and the Internal Revenue Service (IRS) for their potential to facilitate noncompliance with tax law. As requested, GAO is providing information on donor-advised funds and supporting organizations related to (1) federal laws and regulations, compared to private foundations; (2) financial and organizational characteristics; and (3) types of noncompliance and promotion methods and challenges identifying them.

What GAO Recommends

GAO suggests that Congress consider (1) directing IRS to collect Form 990 data for, and provide guidance on calculating payout rates for donor-advised funds and supporting organizations, and (2) providing IRS authority to protect from public disclosure the taxpayer identification numbers (TIN) of loan recipients, so that IRS can collect the TINs on the Form 990. GAO recommends that IRS require (1) more comprehensive reporting of donor-advised fund data, (2) reporting of supported organizations' identification numbers, and (3) reporting of TINs for recipients of large loans, if granted authority to protect the TINs from public disclosure.

IRS agrees with the first two recommendations but believes it needs legislative authority to protect loan recipient TINs.

www.gao.gov/cgi-bin/getrpt?GAO-06-799.

To view the full product, including the scope and methodology, click on the link above. For more information, contact Michael Brostek at (202) 512-9110 or brostekm@gao.gov.

TAX-EXEMPT ORGANIZATIONS

Collecting More Data on Donor-Advised Funds and Supporting Organizations Could Help Address Compliance Challenges

What GAO Found

Donor-advised funds, supporting organizations, and private foundations are all tax-exempt charitable-giving vehicles. Donor-advised funds are separate accounts held by a public charity to receive contributions from donors who may recommend, but not control, charitable distributions from the account. Supporting organizations are public charities that are to carry out their tax-exempt purpose by supporting one or more tax-exempt organizations, usually other public charities. Compared with private foundations, donor-advised funds and supporting organizations give donors less control over how their donation will be used but provide donors more favorable tax deductions, lower administration costs, less IRS oversight, and fewer reporting requirements.

Donor-advised funds hold billions of dollars in assets, and supporting organizations and private foundations hold hundreds of billions of dollars in assets. Public charities and private foundations must annually file an IRS Form 990 or Form 990-PF, respectively, to report their activities. However, donor-advised fund data are limited because organizations that maintain the funds are not required to separately report fund data from other financial data on Form 990. Although some supporting organization characteristics can be determined from Form 990 data, other characteristics, such as the rate at which payments are made to charities and details about the recipients of loans from the organization, cannot be reliably determined. Concerns have arisen about the "payout" rate to charities, and Congress is considering a minimum payout requirement, similar to the one for private foundations. Further, supporting organizations are not required to report their supported organizations' identification numbers, making it more difficult to track the relationship between organizations. To collect additional data, IRS revised Form 990 for 2003 and 2005 and is considering further revisions, but no firm plans have been determined.

According to IRS managers, examinations reveal that some donor-advised funds and supporting organizations are used in abusive schemes to unallowably benefit donors or related parties or give donors excess control of charitable assets and operations. In some cases, IRS is able to clearly determine noncompliance and assign appropriate corrective actions. However, in other cases, IRS faces challenges gathering evidence or addressing activities that do not seem to benefit charities, but do not violate any law or regulation, such as when a supporting organization loans money, at market rate, to a donor, director, or officer of the organization. Promoters, who are individuals or entities who facilitate abusive schemes, further complicate IRS's examination efforts.