After the “Giving Boom,” Charities Are Feeling the Pinch and Facing an Uncertain Future

Initiative to Accelerate Charitable Giving

New analysis of IRS nonprofit data and insights from nonprofit leaders highlights the need for common-sense giving reforms

Despite rising costs, fewer resources, and growing demand for their services, charities continue to remain on the frontlines and help their communities respond to the devasting consequences of the pandemic and economic recovery. In more than a dozen one on one interviews, it’s clear that charity leaders are feeling proud of their organizations’ work and impact during these challenging and unprecedented times.

But looking ahead, charities are facing new challenges that require policymakers’ attention.

Economic Uncertainty Impacting Revenues

Inflation and the risk of recession could mean donors don’t have easy access to capital to draw from, or they decide to give less (or not at all) in this time of economic uncertainty.[1] This has been the case in early 2022, as the number of donors decreased by nearly 6% from a year earlier.[2]

Growing Demand for Services

Despite this expected decline, the services charities deliver are needed more than ever. By late 2021, 7 in 10 charities saw demand for their services increase compared to pre-pandemic levels.[3]

Increasing Expenses

With increased demand and concern about future revenues, many charities are having trouble making ends meet. This leaves them forced to discontinue their programs, turn away those in need, or create waiting lists for new clients.[4] These challenges are compounded by higher operating costs due to rising gas prices, increasing rents, and a tightening job market.

“As the economy slows down, people are going to lose their jobs. We might not get the same level of government funding we had. I’m afraid we won’t have what we need to keep up.”

– Health services nonprofit president, Colorado

Mid-tier charities are getting hit the hardest:

Over time, larger charities have taken on an increasingly greater share of charitable revenues,[5] leaving mid-sized charities to scramble even more for donations to provide the services their clients need.

“Donors naturally choose the largest, most well-known organization, even if it’s not the most community-centered organization.”

– Education nonprofit board member, Missouri

1) https://www.philanthropy.com/article/economic-data-shocks-charity-officials-just-as-they-were-hoping-for-a-post-pandemic-boom?cid=gen_sign_in **2)** https://data.givingtuesday.org/fep-report/ **3)** https://fedcommunities.org/data/main-street-covid19-survey-2021/ **4)** https://www.philanthropy.com/article/economic-data-shocks-charity-officials-just-as-they-were-hoping-for-a-post-pandemic-boom?cid=gen_sign_in **5)** IRS 501(c)(3) data and analysis, 2014-2019: DataLake Nonprofit Research (https://datalake.net), 2022

Rather than going to charities directly, a greater share of charitable dollars is being contributed to intermediaries such as donor-advised funds (DAFs) and private foundations.[6] Unfortunately, under current law, there is no obligation for DAF funds to make their way to working charities in a reasonable time frame. As a result, more money is left on the sidelines every year, not getting to the charities that need it.

- **The growth in contributions to DAFs are rising faster than the growth in contributions made directly to nonprofits.** This represents a 27% growth year-over-year since 2014, outpacing the growth in donations made directly to nonprofits by a 4-to-1 margin.[5]
- **DAFs are stockpiling undistributed donations promised to charities.** In each of the past 6 years, between 10%-30% of funds donated to national commercial DAFs were not distributed to charities, amounting to over $145 billion of accumulated donations and investment earnings held in these DAFs in 2019.[5]
- **The problem is worse than it appears – many contributions from DAFs are simply transfers from one DAF to another.** Between 2014-2019, DAF-to-DAF transfers – money granted from one investment fund to another rather than put directly to charitable use - represented 6-12% of all DAF grants. This represents $1-$2 billion of donations every year that are reported as grants but aren't allocated to working charities.[5]
- **Private foundation-to-DAF transfers are increasing too, potentially limiting giving to working charities.** Private foundations are required to spend at least 5% of their assets each year, but increasingly they are using DAFs to avoid these payout requirements. A recent report found private foundation grants to the top 45 commercial DAFs averaged $737 million per year from 2016 to 2018, and more than $934 million in 2018 alone.[7]

Charity leaders around the country say that if they could get this money from DAFs sooner, it could help them through this uncertain time.

Charity leaders favor common-sense giving reforms. Current tax laws don't provide enough incentive to ensure that funds contributed to DAFs and private foundations are getting into the hands of operating charities in a timely manner. Charity leaders agree their organizations and communities would be better off if common-sense reforms that close tax loopholes and increase the flow of dollars to charities – both through DAF and private foundation reforms – were implemented.

"The idea of this money just sitting there, not actually going to nonprofits right now, is just terrible."

– Health education nonprofit board member, Mississippi

"Reforms would open the door to a lot of new funders. That could open up some new opportunities for us."

– Housing nonprofit CEO, Kansas

"Any money that we can get right now is going to help."

– Human services nonprofit fundraiser, Indiana

6) https://store.givingusa.org/products/giving-usa-2020-the-annual-report-on-philanthropy-for-the-year-2019?variant=39334141165647
7) https://inequality.org/wp-content/uploads/2022/03/Private-Foundation-Giving-to-Commercial-DAFs-Final.pdf

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About this research

This study incorporates IRS nonprofit data from 2014-2019 and is supplemented with data from Giving USA, the Federal Reserve System, GivingTuesday, and interviews among charity leaders across the country. Additional information available upon request.