**Quick-Take:** We can expect the 'new' Congress to begin to immediately take up the extension of the 2017 Tax Act and many of its provisions when it convenes early next month. Another piece of legislation that is expected to be visited by Congress early in 2025 is the proposed ACE Act, which has a fair amount of bipartisan support. The Accelerate Charitable Efforts Act, or ACE Act, focuses on eliminating perceived abuses of donor advised funds (DAFs.)

**Perceived DAF Abuses:** Some concern associated with existing DAFs are:

(i) There is no deadline for distributions from a DAF. Presumably, funds given to a DAF can remain in the DAF, untouched, for years, permitting the DAF principal to grow tax-free.

(ii) While the donor to a DAF can claim an immediate charitable income tax deduction when he/she contributes to the DAF, the funds do not have to be distributed to the charity, or in the view of Congress, the community that the charity serves, for decades, i.e., an immediate income tax deduction benefits the donor, but the community will not benefit from that donation until well into the future.

(iii) Private foundations apparently can abuse DAFs to circumvent private foundation rules. A private foundation must distribute 5% of its assets each year to charity. A private foundation can use the DAF as a 'workaround' by transferring funds to a DAF to meet its annual distribution obligation without ensuring that the money reaches an operating nonprofit organization. By using a DAF to fulfill its annual distribution obligation, the private foundation thus avoids having to make a hasty grant-making decision. Currently there is no limit as to the amount, or duration, these funds can be 'warehoused' in a DAF.

**Proposed ACE Act Reforms:** Some of the reforms that are currently being studied by a couple of committees in Congress as part of the ACE Act are:

> **Tie Tax Deduction to Distribution Deadline:** The Act would establish a payout deadline for all DAFs of 15 years from the date of contribution in order for the donor to qualify for an immediate income tax charitable deduction.
>
> **No 'Warehousing' Distributions by Private Foundations:** Private foundations would be prohibited from counting a transfer to a DAF towards the private foundation's annual 5% distribution requirement.
>
> **Eliminate Some Expenses from Distribution Obligation:** A foundation would be preventing from including family member salaries or luxury expenses in its annual 5% payout obligation.

**Conclusion:** The purpose of these proposed reforms is to ensure that charitable contributions meet their intended purpose more promptly and efficiently. Expect to see some movement in Congress early in 2025 to impose some of these restrictions on DAFs.