



SOPHISTICATED INVESTOR

Gift control

'Venture philanthropists' get tool to manage donations

By Thomas Kostigen, CBS.MarketWatch.com

Oct. 25, 2004

SANTA MONICA, Calif. (CBS.MW) — Philanthropists who have long complained about the lack of control over their charitable investments and poor investment prowess of the institutions to which they donate money can now take matters into their own hands: A consulting firm has devised a new vehicle that allows major donors to direct control of their investments.

The Donor Managed Investment Account Program, designed by Greenwich, Conn.-based Winklevoss Consultants, gives people the ability to actively manage the investment of their contributed assets and accrue investment gains tax-free after the assets are gifted. This is a big step in appeasing the "venture philanthropist" who has entered the nonprofit world looking to shake things up.

Venture philanthropists, according to The Center for Venture Philanthropy in appropriately based Silicon Valley, are a new breed of givers who take a more active role in the funding process, maintaining direct involvement with their philanthropic programs while gaining access to tax advantages and shared professional services.

The venture philanthropist model of giving mostly spun out of the dot.com revolution whereby business practices were turned on their head, providing incentives for results over traditional business practice. Moreover, the wealth spawned by that generation enabled givers to take a turn at philanthropy, looking for a similar "results-oriented" approach to giving.

This type of donor is a fast-growing one and forcing traditional foundations to re-evaluate their grant making, according to Todd Cohen, editor of The Philanthropy Journal in Raleigh, N.C.

But nonprofit institutions are stuck between a rock and a hard place when it comes to venture philanthropists. On the one hand they need the money, but on the other they are then saddled with a micro-meddling donor. For many, the strong-willed donor who wants control over charitable assets isn't welcome. ("Active-involvement" in the use of funds has prompted lawsuits at institutions as diverse as the Smithsonian Institution to small colleges and universities.)

Cohen says "there is a never-ending challenge" for nonprofits to balance donor relationships. "You never want too much control of what the organization does in the hands of one donor." And the concern with venture philanthropists is

that they are too driven toward the bottom line of finances rather than the social mission of the institution.

The DMI account, to an extent, addresses investment accountability, taking away some of the burden from the institution. Donors can manage the investment of their contribution with all the tax advantages the nonprofit institution brings.

According to Winklevoss, the Internal Revenue Service has issued a favorable ruling to donors using the DMI account program to manage their charitable contributions, confirming their gifts are deductible (up to 50 percent of adjusted gross income) for federal income tax and gift tax purposes.

The DMI account works like this: A donor chooses a nonprofit organization to which he or she would like to make a contribution. The DMI is then tailored to that institution through a customized gift agreement, which is completed by the donor and nonprofit at the start of the program.

The agreement spells out the terms and conditions under which the donor can manage the gifted funds. The contribution, or "gift," is then made directly to the nonprofit, utilizing a brokerage firm and investment manager selected by the donor. This puts the power of portfolio management in the donor's hands as opposed to the institution's.

The donor is granted authorization by the nonprofit to direct the investment management of the gifted funds for an agreed period of time, following his or her own investment strategies. Still, investment gains accrue tax-free for the benefit of the nonprofit organization. At the conclusion of the agreed upon investment period, responsibility for investment management returns to the nonprofit institution. It's at that time funds are dispersed for the social mission established at the outset of the arrangement.

To be sure, there are other donor-controlled gift accounts for the purpose of nonprofit investing, with similar tax incentives. But these are typically donor-advised funds, and don't offer as much underlying investment control. Private foundations offer investment control, but are more costly to operate and require substantially more assets to make economic sense. DMI accounts charge an administrative fee akin to a traditional investment management account.

Wealthy donors probably got or have stayed wealthy because of their hands-on stewardship. The DMI account allows them to continue to hold on.