

Inside Philanthropy

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Donor-Advised Funds Arrive in Israel—With an Important Fix

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Donor-advised funds are an increasingly popular means of charitable giving for philanthropists in the United States, Canada, the United Kingdom and many countries in Europe and Asia.

In December, Keshet-DAF, a new nonprofit public benefit corporation established by the Jewish Funders Network-Israel, announced that philanthropists in Israel—and overseas funders that operate in Israel—will now be able to take advantage of the many benefits that DAFs provide. Importantly, donors will have to pay out the funds in DAFs within a set time—a requirement that doesn't exist in the U.S.

It's an opportunity that Andres Spokoiny, president and CEO of JFN, says will help to revolutionize philanthropy in the State of Israel. But DAFs aren't the whole story here.

"There's a broader story about how to change the culture of philanthropy in a context in which philanthropy was not mainstream," says Spokoiny, who notes that Israel's economy is based on the Scandinavian system. "There's a welfare state and you pay very high taxes," he explains.

New wealth and new philanthropy in Israel

Israel was relatively poor for most of its 73 years, but Spokoiny says that's changed in the past 15 to 20 years, when many Israelis became wealthy from the country's high-tech industry.

"So the philanthropic potential was there, but the system did not incentivize giving. With DAFs, we are trying to provide the financial and legal structure that incentivizes giving," says Spokoiny.

Before the inception of Israeli DAFs, “we felt Israelis were giving money away at the wrong times,” says Maya Natan, director of JNF-Israel and CEO of Keshet-DAF. “Instead of giving during a high-liquidity event [such as the sale of a business or a piece of real estate], they were giving many years after, when funds were lower.”

Natan says DAFs are a “fantastic tool to allocate giving at the right time when the income is high or during a major liquidity event. This allows donors as much time as they need to think about philanthropy, to learn about philanthropy, to become strategic philanthropists, to involve their families and to make accurate and professional decisions.”

DAFs managed by Keshet—which was conceived and created in partnership with the Institute for Law and Philanthropy at Tel Aviv University and Committed to Give, an organization that promotes philanthropy in Israel—are similar to American DAFs, says Natan.

Keshet account holders make irrevocable contributions of assets including cash, stock, real estate, etc., which will be invested tax-free; they’ll receive immediate tax deductions or refunds; they’ll name account advisors, successors or charitable beneficiaries, and they can recommend grants to qualified charities that have been vetted by Keshet.

But there are two important differences between American and Israeli DAFs.

Building a better donor-advised fund

Says Spokoyny: “There’s a critique about DAFs that people have a way of hoarding or parking money in a DAF account without really getting it out [to charities]. We solved that for Keshet by establishing disbursement criteria that apply to every individual fundholder in Israel.”

The criteria created by Keshet and the Israeli tax authority requires account holders to pay out funds within a set time limit. Accounts of up to 100,000 Israeli NIS (Israeli new shekel), which equals approximately \$30,000, must allocate all funds within a year; accounts from 101,000 to 1 million NIS must allocate their funds within five years. Endowments of at least 1,000,001 NIS “can be evergreen,” says Natan. “We took the rule of family foundations which must pay out at least 5% of the total account every year.”

Another advantage for Keshet DAF holders is the low cost of its operating fees. While some American DAFs are for-profit corporations, Keshet’s nonprofit status means that account holders pay a maximum of 1% of the account, plus a 0.5% management fee to the investment house. That leaves more money for charitable donations.

Natan says that American funders to Israel including the Harry and Jeanette Weinberg Foundation and the Russell Berrie Foundation are already using Keshet to facilitate their grantmaking in Israel. “You would think of it less as a DAF and more as a fiscal sponsor,” says Natan. “Some funders are finding it much easier to have a ‘back office’ [through Keshet] to manage their grants in a much smoother and faster way. You don’t have to fill out paperwork

every time you make a grant. We do one transfer and then they manage their grantmaking through us.”

Nurturing a culture of philanthropy

But Keshet hopes to do more than just facilitate charitable giving. “It’s a chance to learn about philanthropy, to become more intelligent and strategic about your giving, and equally importantly, to connect to a network of givers, which is key to what JNF does,” says Spokoyny.

“Keshet is the full package,” says Natan. “It’s an infrastructure for giving, a community place to learn and belong; and something you can do with your family that’s about family values.”

And speaking of family values, Keshet encourages multi-generational learning and decision-making about grantmaking.

“Through DAFs, you can have an evergreen fund that can go to your kids. It gives donors the ability to give independence to the next generation of givers,” says Natan. “It’s a way for kids to reconnect to [causes] they care about.”

For example, Natan says younger donors are more apt to support organizations that focus on the environment, animal welfare, civil rights and women’s issues, whereas their parents and grandparents focused more on religious organizations, education and welfare issues.

“Younger people put a premium on controlling the impact of their giving,” says Spokoyny. “In the U.S., that’s a move from communal philanthropy toward more individualized giving that relies on a small network of peers. In Israel, it has more to do with seeing philanthropy more systemically. It’s a shift from nation-building [when the state of Israel was first being formed] to addressing specific problems and societal change.”

DAFs in Israel represent a paradigm shift, says Natan. “We want to get Israelis around the table; to change the story that Americans give and Israelis receive.”