Donor-Advised Fund vs Private (Family) Foundation

Compare	Donor-Advised Funds (DAFs)	Private (Family) Foundations
Start-Up Time	Immediate	Can take several weeks or months
Start-Up Costs	None	Legal (and other) fees are typically substantial
Ongoing Administrative and Management Fees	85 basis points (0.85%) or less, plus investment management fees	Can be in the range of 250-400 basis points (2.5% to 4% per year)
Tax deduction limits for gifts of cash	60% of adjusted gross income	30% of adjusted gross income
Tax deduction limits for gifts of stock or real property	30% of adjusted gross income	20% of adjusted gross income
Valuation of gifts	Fair market value	Fair market value* for publicly-traded stock, cost basis for all other gifts, including gifts of closely-held stock or real property
Required Grant Distribution	None	Must distribute 5% of net asset value annually
Excise tax on investment income	None	Excise tax on 1.39% of net investment income annually
Privacy	Names of individual donors are not disclosed to the public, and grants can be made anonymously	Must file informational returns, which are available to the general public, disclosing detailed information on grants, investment fees, trustee names, staff salaries, etc.
Administrative Responsibilities	Recommend grants to favorite charitable causes	Manage assets, keep records, select charities, administer grants, file state and federal tax returns, maintain board minutes, etc.

DAF Advantages and Limitations

Start-up & Administration

Donors can establish a DAF immediately at a low cost; charitable sponsors require the donors to complete an application and make an initial contribution. Minimum contributions for DAFs can begin at $5,000, although many start at $25,000. This stands in stark contrast to private foundations, which can take months to establish and require significant time and financial investment, due largely to legal fees.

Once established, DAF charitable sponsors handle all administrative work, including managing investments, recordkeeping, tax receipting and grant administration. This allows the donor to focus on their charitable goals. A private foundation, by contrast, must hire staff or ask outside advisors to manage the varied

administrative work and tax matters for the foundation. They must also form a board, hold board meetings and record minutes, file state and federal tax returns, and perform other governance duties, sometimes at great expense.

Donor Control & Grantmaking

Donor control is one of the key differentiators between DAFs and other giving vehicles. When donors make contributions to their DAFs, they are gifting those assets irrevocably to a public charity. Once accepted, the sponsoring charity owns them in their entirety.

The term donor-advised fund is reflective of this relationship: donors have only advisory privileges to grant the assets in their DAF, and the charitable sponsor has the authority to approve or deny those recommendations. Private foundations do not have this kind of restriction, allowing donors to control grants to qualified charities.

Like most other charitable giving vehicles, there are restrictions on which organizations qualify as eligible recipients for DAF grants. For example:

- Donors cannot recommend that charitable grants be made to individuals.
- Donors cannot receive any goods or services in exchange for their grant, like a ticket to a gala.
- Donors cannot recommend that grants pay tuition to private schools or colleges.
- Similar rules apply for private foundations.

Donor Control & Grantmaking

DAFs offer the maximum tax benefits allowed by law. Donors receive an immediate tax deduction when contributing to their DAF. Tax deduction limits for DAFs can be between 30% and 60% of adjusted gross income (AGI), depending on the type of contributed assets, while limits for private foundations can be between 20% and 30% of AGI.

Contributions to DAFs receive fair market value deductions, whereas gifts of certain assets—including closely held stock or property—receive a cost-basis deduction when contributed to a private foundation.

There are no excise taxes on DAFs, and, like other philanthropic vehicles, they can help donors avoid tax on capital gains. Of course, each individual tax situation is different, which is where advisors can play an important role in helping donors decide which is the best giving vehicle for them.

Investment offerings for DAFs vary widely among charitable sponsors. The assets in DAFs legally belong to the charitable sponsor, so they assume all the risk related to managing and investing the assets. This arrangement also means that donors could have less flexibility in selecting investments.

Some charitable sponsors provide only a few investment offerings, while others allow donors and their financial advisors to create a charity-approved more customized portfolio. Private foundations, alternatively, offer donors full control over how the assets are invested and the entity is governed within the confines of the law.

Invested DAF assets can grow tax-free, which means that over time - and with positive returns - more assets are available for charitable purposes than what was originally contributed. Assets inside DAFs in the U.S. increased by almost 11 percent from 2014 to 2015. This growth is attributable primarily to significant new contributions to DAFs (even netting out grants), but also to strong stock performance in 2015.

Payout

One of the most attractive benefits of DAFs is the fact that they do not face restrictions on when their assets must be distributed. In general, DAFs have a payout rate that is consistently above 15%. Private foundations hover around 5%, which is the legal payout federal mandate.

Many DAF charitable sponsors have suggested minimum payouts. National Philanthropic Trust's policy is that donors must actively make grants at least once every three years.

Privacy

DAFs are the only charitable giving vehicle that allows donors to make grants 100% anonymously. When charitable sponsors administer grants on behalf of their donors, the charity is legally distributing its own assets, which means donors can choose to remain anonymous.

Some donors choose to name their DAF after their mission (e.g. the "Fund for Early Education) instead of after themselves (e.g. the "John Doe Fund"). This allows a donor's DAF to be recognized publicly instead of being recognized using the person's or family's name. Private foundations, by contrast, must file annual reports that disclose members of their board, grant recipients, and other information that prevents them from remaining anonymous.

Legacy

How an individual DAF will be advised in the future is determined by the charitable sponsor's policies on succession planning. Some allow the donors to advise for only one generation, thereby passing the control of the DAF to the sponsoring charity after the death of the original donor. Others, like National Philanthropic Trust, permit donors to appoint successors who receive the full advisory privileges on the original donor's death, allowing the DAF to exist in perpetuity.

Similarly, most private foundations can be passed down through generations to ensure a family's charitable giving legacy. However, some private foundations choose to pay out the entire corpus during the life of the original donor.