



DONOR-ADVISED FUNDS vs. PRIVATE FOUNDATIONS

Finding the Best Way to Give

As an alternative to direct giving, donor-advised funds and private foundations have become popular vehicles for charitable giving for those wishing to leave a legacy. Though donor-advised funds and private foundations are similar, there are key differences to understand when deciding the right path for you and your family.

The Basics

- A donor-advised fund (DAF) is a giving account established by a donor that is administered by a public charity - usually a community foundation or the charitable arm of a financial institution. The gift to a DAF is irrevocable. However, in most cases, the charity follows suggestions and advice from the donor on how the assets are to be invested and how they will be distributed to charity.
- A private foundation (PF) is a nonprofit charitable entity created and controlled by the donor. The donor is tasked with ensuring that the foundation follows IRS regulations in order to maintain its nonprofit status and receive the desired tax benefit.

Donor-Advised Fund or Private Foundation?

For many families, establishing a donor-advised fund makes more sense than starting a private foundation. The benefits of DAFs include the following:

1. **Low Administrative Costs.** Many DAFs are created at no initial cost and involve low maintenance fees. On the other hand, PFs typically incur substantial start-up costs, require yearly tax returns, and require yearly board meetings.
2. **Maximum Tax Benefit.** Donors to DAFs enjoy tax deductions on amounts up to 60% of their adjusted gross income (AGI), while gifts to PFs are limited to 30% of a donor's AGI. For both DAFs and PFs, if donations exceed the applicable AGI limits, they can be carried over to subsequent tax years for a period of five years.
3. **Privacy.** PFs are required to file detailed, public tax returns that disclose the names of donors, board members, staff, and grant recipients. DAF donors, fund advisors, and grantees can be kept private at a donor's request.

Who is a Good Fit for a Private Foundation?

- **Donor control** is a key factor for many that choose to create their own private foundation. As the name implies, DAFs only grant advisory privileges to the donor. While most DAFs approve grant requests regularly, this is not assured. For those who plan to give large amounts, this may be a risk they are unwilling to take.
- **Flexibility** is another reason PFs may be preferential to DAFs – in general, PFs allow a wider range of investment options for gifted assets. In addition, private foundations are able to give to a wider variety of beneficiaries, including individuals, scholarship programs, and other foundations. DAFs are usually limited to giving to 501(c)(3) public charities.