

Donor-Advised Funds (DAFs) and Private Foundations

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Donor advised funds (DAFs) and private foundations both offer a way to make significant charitable gifts over the long term. By comparison, DAFs offer simplicity and low costs, while private foundations allow additional control over gifts and investments.

A DAF is similar to a private foundation but requires less money, time, legal assistance and administration to establish and maintain. A DAF also enjoys greater tax advantages than a private foundation.

Donors to a DAF may only offer advice regarding distributions. Alternatively, private foundations offer the donor exclusive control and direction over distributions and investments, an attractive feature to some philanthropists.

However, various legal restrictions imposed on private foundations are not imposed on DAFs, and the federal income tax treatment of a donation to a private foundation is less favorable than that afforded to a DAF. Because gifts to a DAF are considered gifts to a “public charity,” they may allow a greater income tax deduction than gifts to a private foundation. Furthermore, private foundations are required to distribute a minimum of 5% of their assets each year. DAFs have no such

minimum distribution requirement, and DAF donors may be allowed to let their accounts build up tax free for many years and be distributed only upon a specified date or upon the occurrence of a specified event.

Also, DAFs do not need to fulfill many of the reporting and filing requirements that are imposed on private foundations. And because the organization that offers the DAF handles any legal, administrative and filing requirements (including tax returns), the donor is completely freed from these responsibilities. In addition, since separate accounts within a DAF are administered as part of the larger organization, the administrative costs borne by the donor are generally lower than those incurred by a private foundation.

Below is a chart that identifies some key differences between a DAF and a private foundation.

Feature	DAF	Private Foundation
Setup Costs	None	Legal and Accounting
Management Fees	Generally, >\$5,000	Generally, >\$250k
Typical Recommended Funding Amount	Generally, >\$5,000	Generally, >\$250k
Tax Deduction (% of Adjusted Gross Income)	Cash: 60% Appreciated Assets: 30%	Cash: 30% Appreciated Assets: 20%
Annual Minimum Distributions	None	Generally, 5% of assets
Qualified Recipients	501(c)(3) organizations only	Can be individuals; grant decision fully controlled by foundation

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