

Charitable Approach: Donor Advised Fund or Private Foundation?

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Both donor-advised funds (DAFs) and private foundations are vehicles that allow donors to make charitable gifts and receive tax benefits. They also both offer donors the flexibility to make grants to charities over time.

Here are some of the similarities between DAFs and private foundations:

- Start Up – getting access to a DAF can be immediate, while founding a private foundation can take several weeks or months, and be accompanied by legal or other administrative costs.
- Tax benefits: Donors receive an immediate tax deduction for their contributions to both DAFs and private foundations, up to the maximum allowable amount.
- Flexibility: Donors can recommend grants to charities over time, without having to commit all of their funds upfront.
- Charitable giving: Both DAFs and private foundations allow donors to make charitable gifts and support the causes they care about.

Differences between a DAF and a private foundation

- Control: Donors have more control over how their money is invested and distributed with private foundation. With a DAF, the DAF sponsor will determine how the money is invested and has ultimate say in making distributions.
- It's notable that DAF gifts are valued at fair market value. Private foundations use fair market value for publicly traded stock gifts but use cost basis for other gifts, including that of closely-held stock or real property.
- Excise taxes: DAFs are not subject to excise tax; private foundations are subject to an excise tax of 1%-2% of net investment income each year.
- Cost: DAFs are typically less expensive to maintain than private foundations.
- Reporting requirements: DAFs have fewer reporting requirements than private foundations.
- Required Distributions: private foundations must distribute at least 5% of their total fair market value each year. DAFs are not currently subject to distribution requirements.
- Privacy: with DAFs, donors enjoy a greater amount of privacy regarding their donations, their names and personal information is not publicly available and grants can be made anonymously. On the other hand, private foundations are required to file returns, thus making information on their activities, involved parties, investment expenses, etc. publicly available.
- Another difference between a private foundation and a DAF is the ability to reimburse for expenses. A private foundation can reimburse family members for expenses, have a family board, pay compensation and hire staff. Some high net worth families use this as an opportunity to get the entire family together (grandparents, children and grandchildren) and each family member can then decide how much to give to charity. It is a way to bond the family, discuss charitable giving and values.

Which is right for you and your family?

Benefits of a donor advised fund (DAF)

Benefits of a private foundation

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- **Immediate tax deduction:** Donors receive an immediate tax deduction for their contributions to a DAF, up to the maximum allowable amount, typically 30%-50%.
 - **Flexibility:** Donors can recommend grants to charities over time, without having to commit all of their funds upfront.
 - **Professional management:** DAF sponsors provide investment management, grantmaking services, and tax expertise.
 - **Low fees:** DAFs typically require fewer funds to create and are typically less expensive to maintain than private family foundations.
 - Tax deductions for stock, real property or cash is usually between 20%-30%.
 - **Greater control:** Donors have more control over how their money is invested and distributed with a private foundation.
 - **Ability to make grants to individuals:** DAFs can only make grants to charities, while private foundations can also make grants to individuals.
 - **Legacy building:** Private foundations can be a lasting legacy for a family.
 - **Cost:** Private family foundations typically require a substantial investment to get started. Administrative costs often continue over time to maintain and operate the foundation.

The best way to decide whether a DAF or a private foundation is right for your family is to consider your individual needs and goals. If you are looking for a simple and flexible way to make charitable gifts, a DAF may be a good option for you. If you would prefer to retain more control over how your money is invested and distributed, and you are interested in building a lasting legacy for your family, a private foundation may be a better choice.

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