

DONOR ADVISED FUNDS VS. PRIVATE FOUNDATIONS

Charitable giving can be a powerful tool for both estate planning and tax management. Two popular charitable giving vehicles are donor advised funds and private foundations. Both of these vehicles allow you to donate assets in the current year, receive an immediate tax deduction and actively manage your charitable giving in future years.

DONOR ADVISED FUNDS

A donor advised fund is an account managed by a charitable organization. The charitable organization is a separate legal entity, but the account is not, which makes it easier and less expensive to establish in comparison to a private foundation. When assets are contributed, the fund becomes the legal owner of the assets. As the donor, you may then recommend grants to qualified charities, but the donor advised fund's governing board is free to accept or reject any of your requests. However, most donor advised funds grant the donor's requests, assuming the recipient is a qualified charity with 501(c)(3) status. The donor advised fund handles all tax filings and administrative reporting requirements rather than the donor, which removes the administrative burden faced by a private foundation.

PRIVATE FOUNDATIONS

A private foundation is a tax-exempt entity generally created and governed by an individual or family. Private foundations offer the advantage of complete control as to the ultimate amount and recipient of the donated funds. Control of the foundation may remain in the family over generations. Unlike a donor advised fund, a private foundation can establish scholarships or award programs and make grants to individuals in times of need. A private foundation is required to file a Form 990-PF and state tax forms each year, and tax is levied on the private foundation's net investment income. Also, minimum annual distributions of the assets are required. A 30% penalty is applied if the foundation does not distribute 5% of the average fair market value of its assets annually.

The following chart illustrates key differences between donor advised funds and private foundations. At Aldrich Wealth, we can help you choose and implement the option that best achieves your goals.

	Donor Advised Funds	Private Foundations
Set-up costs	None	Legal, accounting and operational costs
Typical amount recommended to open	\$5,000 plus	\$250,000 plus
Grant recipients	501(c)(3) organizations only	501(c)(3) organizations and individuals
Control of grants	Donor may make grant recommendations but the fund makes final decisions	Donor retains complete control over grant making
Annual minimum distribution requirement	None at the individual account level, but 5% of net asset value is recommended	5% of net asset value
Manage investments	Depending on the account size, the donor may choose from investment options offered by the sponsoring organization or have the account managed by their own investment advisor	A Foundation exercises control over its investment strategies, vehicles, policies and managers
	Donor Advised Funds	Private Foundations
File federal and state tax returns	There are no filing requirements at the account level	A foundation must file a Form 990-PF and state reports

Value used to calculate potential deduction for non-cash donation	Fair market value for assets held over one year	Fair market value for publicly traded securities Cost basis for other appreciated assets
Excise Tax	None	Flat rate of 1.39% on net investment income
Board of Directors	Not permitted	At least one board member is required
Privacy	The donor may decide whether or not to be named or remain anonymous	The tax returns must specify grant recipients, staff salaries, trustee names and more

The information contained in this report is for informational purposes and is not intended as financial, tax or legal advice, and is accurate to the best of our knowledge. If you are interested in exploring these strategies to see if they are applicable to your specific situation, please contact us.

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