Aldrich WEALTH®

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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 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 (DAF) is an account managed by a charitable organization specifically setup to facilitate gifting. The charitable organization is a separate legal entity and the donor advised fund is established within the organization. This makes funding a DAF easier and less expensive than a private foundation. The DAF also handles all tax filings and administrative reporting requirements, which removes the administrative burden from the donor. When assets are contributed, the DAF becomes the legal owner of the assets. As the donor, you may then recommend grants to qualified charities, but the DAF's governing board is free to accept or reject any of your requests. Most DAFs grant the donor's requests, however, assuming the recipient is a qualified charity with 501(c)(3) status.

PRIVATE FOUNDATIONS

A private foundation is a tax-exempt entity generally created and governed by an individual or family. Private foundations give the donor complete control over the amount and recipient of each grant made by the foundation. Additionally, control of the private foundation may remain in the family over generations—establishing a long-reaching charitable legacy. Unlike a DAF, a private foundation can establish scholarships or award programs and make grants to individuals in times of need. The tax and administrative burden, however, is the responsibility of the foundation. Private foundations are required to file a Form 990-PF and state tax forms annually. Taxes are levied on the private foundation's net investment income each year. Distribution requirements are also more stringent with private foundations. A minimum annual distribution of the assets is required, and a 30% penalty is applied if the foundation does not distribute at least 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	$1,000,000 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
Grant scholarships and fellowships to selected individuals	Grants to individuals are not allowed. The donor can, however, recommend a grant to an organization that administers a scholarship or fellowship program.	Scholarships and fellowships can be awarded to individuals chosen by the private foundation as long as the IRS has already provided advanced approval
Annual minimum distribution requirement	None at the individual account level, but 5% of net asset value is recommended	5% of net asset value

	Donor Advised Funds	Private Foundations
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
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
Excise Tax	None	Flat rate of 1.39% on net investment income
Board of Directors	Not permitted	At least one board member is required
Employ and pay staff and family members	Donor advised funds employ their own staff and do not allow donors to hire staff or family members	Staff and family can be hired by the private foundation as long as they are qualified for the position and their compensation is reasonable
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

CONTRIBUTION LIMITS AND TAX DEDUCTIONS

DAFs and private foundations are subject to varying annual limitations for contributions and tax deductions based on the donor's AGI in the year the contribution is made. Please note, tax-deductions for any contributions exceeding the annual AGI limitations in either case can be carried forward for up to 5 years.

	Donor Advised Funds	Private Foundations
Tax deduction for cash contributions	Up to 60% of AGI	Up to 30% of AGI
Tax deduction for long-term appreciated publicly traded securities	Fair market value of the securities up to 30% of AGI	Fair market value of the securities up to 20% of AGI
Tax deduction for long-term appreciated non-publicly traded securities (including real estate and privately held stocks)	Fair market value of the non-public securities up to 30% of AGI	Limited to the cost basis of the non-public securities up to 20% of AGI
Unused tax-deduction carry forward	Up to 5 years	Up to 5 years