

## Donor Advised Funds and Private Foundations: A Comparison of Key Features

Two common charitable giving vehicles are donor advised funds (DAFs) and private foundations. Basically, a DAF is an account housed in and governed by a public charity. A private foundation is a standalone trust or nonprofit corporation that qualifies as a tax-exempt organization.

Both DAFs and private foundations feature the ability to engage family members in philanthropy and create a family legacy. Also, both offer unique features and benefits, which you should carefully review if you are considering these options.

There are a number of factors contributing to choice of vehicles. The table on page 2 was developed to help guide you through the key features and provide a side-by-side comparison. Keep in mind these options are not mutually exclusive. Many families use a combination of charitable giving vehicles to meet their philanthropic goals.

### Highlighting the Key Differences

The primary differences between the two relate to grant-making control, investment flexibility, and tax benefits to donors. Generally speaking, DAFs:

- offer lower expenses;
- are generally simpler to administer; and
- provide less control over investment management and grant distributions.

In contrast, private foundations are more costly and complex to administer but typically provide control over investment management and grant distributions.

Both are effective because they offer tax advantages and opportunities to involve family in conversations about philanthropy, legacy, and financial management. In general, families and individuals seeking a simple, low-cost option tend to select DAFs. Those who plan to donate a minimum of \$5 million and are seeking to retain greater flexibility and control of grant making and investments tend to choose private foundations.

### Thinking About Charitable Goals

Before reviewing this comparison, it is important to think about your charitable giving goals. How much will you and others donate? What is the timeframe for both donations and distributions? Discuss your plans and vision with your financial advisor to help determine the options best suited for you and your family.

**Donor Advised Fund and Private Foundation Comparison Table begins on page 2.**

## Donor Advised Fund and Private Foundation Comparison

	Donor Advised Fund	Private Foundation
<b>Type of entity</b>	An account housed in and governed by a public charity	A standalone trust or nonprofit corporation that qualifies as a tax-exempt organization
<b>Start-up time</b>	Immediate	Typically several weeks to a few months
<b>Start-up costs</b>	None	Accounting, filing, and legal fees
<b>Initial contribution</b>	Confirm with fund sponsor; some begin at \$5,000	A minimum of \$5,000,000 is suggested
<b>Ongoing fees</b>	Investment management and administration, typically less than a private foundation	Investment management and administration, accounting and legal fees as needed
<b>Annual taxes</b>	None	Excise tax of 1-2% of net investment income
<b>Annual tax filings</b>	None	Federal and, depending on activities and state in which doing business, some state regulatory filings may be required
<b>Accounting fees</b>	None	Fees for independent audits, annual tax return preparation and filings
<b>Types of donations accepted</b>	Typically cash and marketable securities. Donations are irrevocable	May have more flexibility in type of gifts accepted and assets held; foundation decides. Donations are irrevocable
<b>Valuation of gifts</b>	Fair market value	Cash and publicly traded stock, fair market value; closely held stock or real property, cost basis
<b>Tax deduction limits for cash gifts</b>	50% adjusted gross income	30% adjusted gross income
<b>Tax deduction for stock or real property</b>	30% adjusted gross income	20% adjusted gross income
<b>Minimum required distribution</b>	Currently none. Internal Revenue Service is considering how to implement a minimum required distribution, expected to be similar to the private foundation minimum required distribution calculation	Yes. Internal Revenue Service requires annual minimum distributions equivalent to approximately 5% of the previous year's net average assets. Amounts in excess of the minimum distribution can be carried forward and applied to subsequent distribution requirements up to five years
<b>Control of grant making</b>	Family members may serve as advisors and recommend grants; however, the sponsor has final approval authority and may decline a recommended grant if outside of the fund's guidelines. Typically, grants to 501(c)(3) organizations are allowed; restrictions include private foundations, individuals, international grants, and non-501(c)(3) organizations. Confirm with fund sponsor	Grant making decisions controlled by the foundation, subject to self-dealing rules

	Donor Advised Fund	Private Foundation
<b>Delivery of grant checks</b>	Grant checks are sent directly by the fund sponsor to the charitable recipient, donors do not have the ability to directly deliver grant checks	Donors have the ability to deliver grant checks in person if they like
<b>Control of investments</b>	Depending on the size of the DAF, donors can either choose a standard asset allocation model or if the fund balance is large enough some sponsors may offer separate investment accounts but the sponsor retains investment authority	Foundation can retain control of investments
<b>Privacy</b>	Donor(s) names can remain confidential	Tax returns are public documents and include gifts accepted, grants paid, fees paid, assets, and names of officers, directors, and trustees (also staff salaries if applicable)
<b>Duration</b>	Confirm with fund sponsor; some limit the number of successor advisors	Can exist in perpetuity if you choose

**For more information, please contact your Hawthorn advisor.**

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