

TRUSTS & ESTATES

Donor-Advised Fund or Private Foundation?

Chet Schwartz, CIMA®, CFP®

Director, Financial Planning

A donor-advised fund (DAF) offers an easy way to make significant charitable gifts over a long period of time. So does a private foundation (PF), but DAFs require less money, time, legal assistance, and oversight to establish and maintain, and charge lower ongoing administrative fees. PFs are particularly useful if you're interested in a vehicle designed to last for generations.

Significant Tax Benefits with DAFs

DAFs and PFs can both be funded with cash or appreciated securities, though deductibility is higher with a DAF (*see table below*). Donors almost always determine which charities to fund, though technically, decisions reside with the fund sponsor. Funding a DAF with low-cost-basis securities is common, since the fair market value of the positions can be carried over for five years in determining donor tax deductions.

A donor who itemizes can generally take an immediate income-tax deduction for a contribution to a DAF or a PF. The size of the deduction depends on the amount and type of property

contributed, as well as the donor's adjusted gross income (AGI). For a DAF, cash deductions are generally limited to 50% of AGI, though for 2018 through 2025, the limit has been increased to 60%. If the donor gives highly-appreciated securities, the deduction is limited to 30% of AGI. (Once a DAF receives securities, the fund can sell them free of capital-gains tax.)

Deduct Now and Give Later

Both PFs and especially DAFs allow donors to take tax deductions before deciding on the charities. And both vehicles can be named to honor the donor. A DAF usually receives contributions from many unrelated donors, while a PF is typically funded by one source: an individual, family, or corporation. PFs are required to distribute a minimum of 5% of their assets each year. DAFs have no such requirement, and may grow tax-free for years before distribution, which may occur upon a specified date or event. In addition, DAFs do not need to fulfill many of the reporting requirements that are imposed on PFs, and are not subject to the excise tax or the 1.39% tax on net investment income levied on PFs.

However, donors looking to involve their families now and in later generations may migrate to PFs. Indeed, many PFs are designed to last into perpetuity. And donors to PFs have total control over where their contributions are directed.

TWO CHARITABLE VEHICLES: A COMPARISON

	DONOR-ADVISED FUND	PRIVATE FOUNDATION
START-UP TIME	IMMEDIATE	MAY TAKE SEVERAL WEEKS OR MONTHS
START-UP COSTS	NONE	LEGAL AND OTHER FEES ARE SUBSTANTIAL
FEASIBLE TO START WITH A MODEST DONATION (E.G., \$10,000)?	YES	YES, BUT NOT ECONOMICAL
ULTIMATE CONTROL OVER GRANTS BELONGS TO:	DONOR-ADVISED FUND	DONOR
ULTIMATE CONTROL OVER INVESTMENTS BELONGS TO:	DONOR-ADVISED FUND	DONOR
EXCISE TAX ON INCOME	NONE	UP TO 2% OF ANNUAL NET INVESTMENT INCOME
INCOME-TAX DEDUCTION —PERCENT OF ADJUSTED GROSS INCOME	<ul style="list-style-type: none"> – UP TO 60% FOR CASH CONTRIBUTIONS – UP TO 30% FOR LONG-TERM APPRECIATED PROPERTY 	<ul style="list-style-type: none"> – UP TO 30% FOR CASH CONTRIBUTIONS – UP TO 20% FOR APPRECIATED PUBLICLY-TRADED SECURITIES
VALUATION OF GIFTS	FAIR MARKET VALUE FOR PUBLICLY TRADED SECURITIES, COST BASIS FOR ALL OTHER GIFTS	FAIR MARKET VALUE FOR CASH OR PUBLICLY TRADED SECURITIES, COST BASIS FOR MOST OTHER GIFTS
REQUIRED GRANT DISTRIBUTION	NONE	AT LEAST 5% OF NET ASSET VALUE MUST BE PAID OUT ANNUALLY
PRIVACY	DONORS CAN REMAIN ANONYMOUS; GRANTS CAN BE MADE ANONYMOUSLY	TAX RETURNS AND DONORS' NAMES ARE PUBLIC RECORD

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