

Considering Converting Your Private Foundation to a Donor-Advised Fund?

/ 7 KEY POINTS
TO CONSIDER /

Private foundation donors are sometimes encouraged to transition their organization to a donor-advised fund (DAF). The pitch often goes something like this: “Why put up with the burden and time demands of a private foundation when you can have the same advantages in an easy-to-manage donor-advised fund?”

Although a DAF can be a useful complement to a private foundation (many of our clients have both charitable vehicles), the two are by no means interchangeable. **The fundamental distinction is that a private foundation is a freestanding legal entity, and a donor-advised fund is an account.** This means there are distinctions regarding control, authority, and philanthropic capabilities that may be critically important to you or future stewards of your philanthropy.



As you deliberate this decision, remember that no matter what the marketing materials may say, a DAF can never be “just like a private foundation.” **Here are some considerations that might influence your choice to convert your private foundation to a donor-advised fund.**

NO MATTER WHAT THE MARKETING MATERIALS SAY, A DAF CAN NEVER BE “JUST LIKE A PRIVATE FOUNDATION.”



1 You Will Lose Legal and Financial Control Over Your Assets /

Some funds promise that you can keep your foundation’s name and even appoint family or foundation directors as “advisors” to the account, replacing themselves in perpetuity. That may sound like you retain ultimate authority, but you don’t. When your foundation’s assets transfer to a DAF, legal and financial control resides with the fund’s sponsors.

2 You Will Cede Authority Over Grantmaking Decisions /

With a private foundation, authority over grantmaking rests solely with the foundation members. When making a grant from a DAF, the only way you can support a charitable organization is by making a recommendation to the fund sponsor, which has the authority to either accept or reject your recommendation. Even something as simple as hand-delivering a grant check is prohibited to you because, as an “advisor” to a DAF, you are not a legal agent of the sponsoring organization and therefore cannot have control over the execution of grants.

3 You May Forever Limit the Types of Grants You Can Make and Activities You Can Perform /

Whereas private foundations have almost limitless philanthropic capabilities, DAFs are typically constrained to making grants to 501(c)(3) charitable organizations. While that restriction may not impact your immediate philanthropic objectives, it could permanently close the door to certain types of grants and activities that are routine for private foundations. For example, DAFs are prohibited from making grants to individuals. That means you—and future advisors to the account—won’t be able to award scholarships and choose the recipients. You won’t be able to give directly to people facing hardships, emergencies, or medical distress.

IF YOU CONVERT YOUR PRIVATE FOUNDATION TO A DAF AND SUBSEQUENTLY CONCLUDE THAT IT’S NOT WHAT YOU NEED OR WANT, YOU’RE PROBABLY OUT OF LUCK



4 You Will No Longer Enjoy Total Control Over Investments /

A foundation exercises total control over investment strategies, vehicles, policies, and managers. Financial control rests entirely with the foundation's governing body in conjunction with its wealth advisor and preferred financial institution. With a DAF, however, your control is limited to choices provided by the sponsoring organization regarding how your assets will be invested. If your account is over a certain size, a DAF might offer the flexibility of a separately managed investment account. More typically, you will be asked to choose from a standardized selection of mutual funds or limited menu of proprietary, pooled investment options.

YOU CAN HAVE EVERYTHING THAT'S GREAT ABOUT A PRIVATE FOUNDATION WITHOUT ANY OF THE HASSLES



5 You Will Lose Capabilities that Stretch Your Charitable Dollars /

A DAF cannot reimburse expenses, but a private foundation may pay all reasonable and necessary expenses associated with its charitable purpose, including board meetings, administration, site visits, legal counsel, etc.

6 You Won't Be Able to Compensate Staff or Family Members for Their Work /

A private foundation may hire and compensate staff, including family members, to provide professional services to the foundation provided that they are qualified for their positions and their compensation is reasonable and necessary. However, with a DAF, hiring staff is not an option.

7 You Can't Change Your Mind /

If you convert your private foundation to a DAF and subsequently conclude that it's not what you need or want, you're probably out of luck. DAF fund sponsors typically have rules against gifting assets to a private foundation, so it is all but impossible to undo your decision. Before you make an irrevocable decision, you'll need to think beyond your short-term objectives and consider the long-term implications for future generations and your philanthropic legacy. In the years to come, will you (or future generations) regret the decision to dissolve the private foundation and convert to a vehicle that forever limits their options?

But We Want to Reduce Our Overhead and Time Commitment!

If you conclude that a private foundation offers superior advantages, and you wish to retain the control, flexibility, and authority it confers in perpetuity, you may find that your reasoning has come full circle. When taking the long view, it makes more sense to retain the private foundation, but what about immediate concerns, such as the administrative burdens and costs?

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ABOUT FOUNDATION SOURCE

Foundation Source empowers people and companies to create a better world through philanthropy. We make giving easier for more than 2,000 foundations with innovative technology backed by philanthropic expertise.

HAVE A QUESTION?

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