FOUNDATIONSOURCE

Donor-Advised Funds vs. Private Foundations Checklist

13 CRITICAL QUESTIONS TO GO THRU WITH YOUR CLIENTS

Advisors often recommend a charitable vehicle for their philanthropic clients as part of their overall wealth management strategy. Donor-advised funds (DAFs) and private foundations are two of the most popular options since they both offer unique advantages that can help clients with strategic, tax-advantaged giving that complements their core financial plan. And, thanks to tech efficiencies, both vehicles have a much lower entry point and are easier to open and manage than ever before. For many charitable clients, however, the best choice isn't just one or the other—but both—as using them together can provide philanthropic and financial synergy.

Here are some of the key aspects of charitable giving that you can discuss with clients to help them choose the best vehicle(s) for their goals and needs.

Giving Style

1. Is having control over their giving important to them?

YES ☐ NO ☐

DAF donors can make recommendations for how assets are granted but ultimate approval rests with the DAF sponsoring organization. DAF sponsors offer investment options in alignment with their policies, and most DAF sponsors partner with financial advisors to manage client investments. Private foundations have complete control over how assets are invested and distributed.

2. Do they intend to involve their family?

YES ☐ NO ☐

Family members can participate in both DAF or private foundation giving. With most DAFs, clients can give advisory privileges to family members 18 years and older. With a foundation, they can engage all ages in direct charitable activities and even employ family members in staff positions, provided the individuals are qualified and compensated reasonably and necessarily, and ask them to serve on the board.

3. Do they want to give primarily to registered 501(c)(3) organizations?

YES ☐ NO ☐

A donor-advised fund may be the better option for giving primarily to 501(c)(3) organizations as they also offer simplicity, lower costs, higher tax deduction limits, and the flexibility to grant funds anonymously. While it's possible to support 501(c)(3)s through a private foundation, if your clients won't take advantage of the additional giving features and flexibility that foundations offer, the additional complexity may not be warranted.

4. Are they interested in running their own direct charitable activities/programs?

YES ☐ NO ☐

A private foundation may run its own programs and pay for expenses (supplies, salary, rent, etc.), provided these are activities that fall within the IRS guidelines. Foundations have demonstrated extensive creativity around charitable programs, including such activities as food drives, museums, training camps, annual awards and scholarship programs, documentary films, research projects and traveling exhibits, to name just a few approaches. DAF sponsoring organizations do not facilitate direct charitable activities or cover charitable expenses.

5. Do they want to give anonymously?

YES ☐ NO ☐

DAF sponsoring organizations and private foundations must disclose all grants on their tax forms. The difference is that DAF donors can remain anonymous because the funding recommendations they make to the DAF sponsor are confidential. Private foundations do not have anonymity because they're legally required to record their grants on their tax returns. However, an administrator or a law firm may be able to serve as the address of record to keep the personal information of a foundation's owner or trustees off public documents, primarily the IRS Form 990-PF.

6. Will they need enforceable grant agreements?

YES ☐ NO ☐

DAF donors can include purpose statements or memo information to a grant recommendation for charities to consider, however, as per IRS policy, DAF sponsors cannot approve grant recommendations for legally binding agreements of any kind. Private foundations can establish legally binding agreements with grantees to secure certain terms, such as capping administrative expenses or naming rights, and ensuring funds are used according to the donor's wishes.

7. Do they want to personally deliver donations?

YES ☐ NO ☐

DAF sponsors, for security and compliance purposes, are solely responsible and held accountable for grant disbursement, so they cannot facilitate the personal delivery of grants by donors. Private foundations can personally deliver grants to charities as well as individuals and families.

8. Do they want flexibility to move money from one giving vehicle to another?

YES ☐ NO ☐

DAF donors cannot recommend grants to private foundations per IRS policy, as DAFs are designed to support public charities. Private foundations can grant to DAFs and many foundations use DAFs as a strategic tool to assist with anonymous gifts, award grantmaking privileges to family and board members, and to help meet the annual payout requirement. If your client leverages a DAF, they can always start a private foundation if they decide they want the added features and flexibility to pursue their philanthropy.

Fees & Financials

9. Are they interested in tax-advantaged giving?

YES ☐ NO ☐

Both DAFs and private foundations offer tax benefits, including a current-year income tax deduction and no capital gains, estate or gift tax. Gifts to DAFs are tax deductible up to 60% of AGI each year. For private foundations, it's 30%. When donors contribute cash, securities, or other assets to a DAF or a foundation, they receive an immediate tax deduction and then have the flexibility to determine where they want to grant the funds. Foundations must grant out 5% of their prior year's balance each year in order to meet regulatory requirements and maintain their tax-exempt status. Please note that deductions may vary based on each client's specific situation and a tax advisor should be consulted before recommending a contribution.

10. Can they meet initial funding levels?

YES ☐ NO ☐

The amount of money needed to open a DAF varies by sponsoring organization but generally ranges from $5,000 to $25,000. Some DAFs may not have any minimum contribution requirements. The start-up costs and ongoing administration associated with establishing a foundation mean that they are typically started with a much larger lump sum—often 20x or 30x the assets needed to open a DAF—or a plan for future funding that coincides with a liquidity event.

11. Do they want to fund with a variety of assets?

YES ☐ NO ☐

Private foundations and most DAFs can accept a wide array of asset types, including real estate, collectibles, private equity, stock options and cryptocurrency. Non-cash assets donated to a DAF are usually liquidated immediately upon receipt, though cash proceeds may be used to invest in DAF investment offerings for tax-free growth. Private foundations have the added flexibility to hold non-cash assets such as intellectual property, insurance policies, operating businesses and other valuables.

12. Do they want their contributed assets to grow?

YES ☐ NO ☐

Assets contributed to most DAFs and private foundations can be invested and grow tax-free until they are granted to a charity.

13. Are fees, costs and administration major factors?

YES ☐ NO ☐

Most DAFs have no or low start-up costs, average annual administration fees of 60 bps on assets, and are virtually maintenance-free for donors since the DAF sponsor handles the administration—meaning no grant processing, board meetings or tax returns. By contrast, private foundations require a bit more involvement from their owners although technology and outsourcing have dramatically lowered the costs and administrative duties. Incorporation and filing fees usually start around $5,000 and average annual administration fees range from 10-30 bps on assets. Please note that these fee ranges may vary by provider and actual costs should be confirmed before opening an account.

If your clients answered "Yes" to any of these questions, help them learn more about the benefits of a DAF or private foundation by contacting us today!

ABOUT FOUNDATION SOURCE

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