

Donor Advised Funds vs. Private Foundations

When it comes to generosity, donor advised funds (DAFs) and private foundations (PFs) are two commonly used tools. Understanding their differences will help you choose the structure that best supports the goals of you and your family.

About Private Foundations

A private foundation is a 501(c)(3) nonprofit organization that is usually funded by a single individual, family, or corporation. Programs and funds are managed by its directors and officers.

About Donor Advised Funds

A DAF is an account which is owned and controlled by a sponsoring organization. The donor has advisory privileges with respect to the fund's distribution and strategy.

Component	Donor Advised Fund	Private Foundation
Costs to open	None	Must pay legal and accounting fees for incorporating, filing IRS paperwork, etc. (Usually \$5K-\$30K)
Ongoing costs	Cost varies by public charity, but typically less than 1% of assets per year.	Continual fees for legal advice, accounting, administration, etc. (\$5K-\$30K)
Governance and the donor's role	The public charity has control, but donors have advisory rights.	The donor family has total control of the board. After the donor passes, the board has total control.
Right to manage assets and grants	The donor can recommend where to grant and invest assets, but the public charity has ultimate control.	Subject to self-dealing rules, the board has ultimate control of where to grant and invest assets.
Required to distribute	No	Must distribute 5% of foundation assets annually
Grant to non-exempt individuals	No	Yes, following the same requirements as when granting to foreign charitable organizations.
Limits on tax deductible gifts for cash and publicly traded securities	Cash gifts can be deductible up to 60% of adjusted gross income (AGI). Publicly traded securities can be deductible up to 30% of AGI.	Cash gifts can be deductible up to 30% of AGI. Publicly traded securities can be deductible up to 20% of AGI.
Limits on tax deductible gifts for non-liquid appreciated assets (long-term capital gain)	Gifts' fair market value can be tax deductible up to 30% of AGI.	Lesser of fair market value or the donor's basis in asset up to 20% of AGI.
Granting anonymously	Yes	No ¹
Private	Yes. All information from a DAF is combined under the public charity. DAFs do not require an individual tax return.	No. The donor must file a 990-PF Form, which must be made available to the public and which discloses detailed financial information.
Reimbursing travel and other expenses	No	Yes
Hiring staff, paying salaries and benefits	No	Yes, within reasonable compensation limits
Exist in perpetuity	Yes	Yes

¹ If you combine a private foundation with a donor advised fund, your grants can be partially private and anonymous.

The Benefits of a DAF

With these comparisons in mind, donors often find that a DAF is the better solution for their needs. While a PF may offer more immediate control to the donor, it is often outweighed by the time and financial commitments required. The DAF becomes an efficient and powerful tool for generosity. Consider these benefits:

- + Grants can be made anonymously.
- + There are no costs to create a DAF.
- + The Signatry handles the administrative details, reducing the burden on the donor.
- + There is no annual minimum distribution requirement.
- + There can be greater tax benefits for contributions through a DAF.

Take Your Next Step

The Signatry exists to empower clear and intentional generosity. We believe DAFs are an incredible tool for donors to accomplish their goals and make a difference in the world. To move your PF to a DAF, you may be able to grant assets from the PF to the DAF. You can even make your board of directors the advisors on the DAF. Once the PF has been dissolved, you no longer need to file 990 forms after the final form is filed.

Connect with our team to find the best strategies and tools for you.

Visit thesignatry.com or contact us at info@thesignatry.com.