GLENMEDE

Grantmaking Using Private Foundations and DAFs

Private foundations and donor-advised funds (DAFs) allow donors to make tax-deductible contributions and grants to nonprofits over time. Although you can use them together to help achieve your charitable giving goals, there are meaningful distinctions between the two. It is important to consider your options to determine whether one of these grantmaking vehicles—or a combination of the two—can support your philanthropic plan.

Private Foundation: Creating a Legacy

A private foundation is a tax-exempt charitable entity that enables you to pursue your charitable goals, make an impact in your community, connect multiple generations in a common cause, and create an enduring legacy. It typically allows for a high degree of control through its governing body. Foundations can establish their own offices, hire staff and consultants, and direct grants and investments consistent with legal and tax requirements. Contributions to private foundations, which can be in the form of cash, stocks, bonds, mutual funds, real estate, and other assets, are irrevocable. The IRS requires foundations to distribute at least 5% of net assets annually for charitable purposes. Generally, a private foundation can give to a DAF, but a DAF cannot give to a nonoperating private foundation.

Donor-Advised Fund: Focusing on Flexibility

A DAF allows you to make an irrevocable charitable contribution, generally receive an immediate tax deduction, and recommend grants from the fund over time. DAF assets are owned and controlled by the DAF sponsor, an established charitable organization, making them easier to set up and often less costly than private foundations to maintain. DAFs are not subject to the same 5% distribution requirement as foundations, so they can be invested and grow tax-free as long as periodic grants are made. DAFs can accept a variety of donations, including cash, stocks, bonds, mutual funds, real estate, life insurance policies, privately held business interests, and other appreciated assets.

Key Considerations

Private foundations and DAFs can be used together to achieve your charitable giving goals. Take time to understand how they can complement one another and how they are different.

	Private Foundation	DAF
Start-up and maintenance costs	• Initial filing fees and ongoing accounting, legal, and advisory fees. • Excise tax on net investment income.	• Generally, no up-front costs, but the nonprofit sponsoring the DAF collects ongoing administration and investment fees. • No excise tax on net investment income.

	Private Foundation	DAF
Administrative responsibilities	• Manage assets, keep records, select charities, administer grants, file federal tax returns and state filings, and maintain board minutes, among others.	• Recommend grants to favorite charitable causes.
Control and governance	• Independent and has its own board and governing document, allowing the founder to control governance, commit to philanthropy, and involve multiple generations.	• Maintained and operated by a sponsoring 501(c)(3) public charity, which has legal control over the assets and sets distribution requirements. • Donor retains advisory privileges with respect to investment and distribution of the assets and may name other authorized advisors and successors.
Tax deductibility	• Cash contributions qualify for a tax deduction of up to 30% of adjusted gross income (AGI); contributions of long-term capital gain property, up to 20%. • Tax-deductible amount of contributions of private business interests, real estate, and certain other assets limited to cost basis.	• Cash contributions qualify for a tax deduction of up to 60% of AGI and contributions of long-term capital gain property, up to 30%. • Tax-deductible amount of contributions of private business interests, real estate, and certain other assets at fair market value.
Privacy	• Public, with anyone able to research a foundation's grants, its total assets, donors and contribution amounts, board members, and any compensation received from the foundation. • This information reported in the foundation's annual federal tax filing (990-PF).	• Not required to identify donors, and grants can be made anonymously.

Aligning Your Giving Vehicle with Your Philanthropic Goals

While there are no hard-and-fast rules about who should establish which type of grantmaking vehicle, DAFs have increased in popularity as a turnkey solution. Private foundations, however, may be better suited for those who desire greater control or who wish to do more than invest and request grants of philanthropic capital.

Private foundations and DAFs are not mutually exclusive—both can complement each other within a giving plan. A combined approach can offer greater flexibility to leverage the strengths of each vehicle, such as the direct control and family involvement of a foundation with the anonymity, administrative ease, and potentially greater tax benefits of a DAF.

To learn more about these and other charitable giving options, visit Glenmede.com and contact us today.