NATIONAL CENTER FOR
FAMILY PHILANTHROPY
Inspiring Generations of Giving

OPTIONS FOR FAMILY PHILANTHROPY:
Comparing Donor-Advised Funds and Private Foundations

Management and Other Issues	Donor-Advised Fund	Private Foundation
Minimum amount to set up	Varies, but from $5,000 to $25,000 typically – some require up to $100,000; some have no minimum amount.	Talk with a professional advisor. Most will say $10 to 20MM minimum, although some donors start private foundations for as little as $250K to $1MM.
Start-up costs	Minimal and often covered by parent organization	Legal fees and other start-up costs can be substantial
Time to set up	Varies. Some sponsor organizations can set up a DAF within minutes or within one day. Others take longer.	Private foundations must file state incorporation paperwork and submit an IRS Application for Recognition of Exemption Under Section 501(c)(3). It can take several weeks or months to set up.
Privacy	Names of donors, fund advisors, and grantees can be kept confidential if the donors wish.	Required to file detailed tax returns on names of board members and donors, grants, investment fees, board and staff compensation, etc., which are public records.
Lifespan of Fund/Foundation	Many DAFs revert to the sponsor organization after original donors or the two succeeding generations die.	Foundations can exist in perpetuity.
Required payout	None required by the IRS; some sponsors may require one.	Must expend 5% of net asset value annually, regardless of how much the assets earn.
Governance and succession	Some sponsor organizations allow and encourage continuing of donor-advisors from one generation to the next; others do not, or will only permit succession for one or two generations max.	Many families establish private foundations in perpetuity. This may bring more opportunities for board training, succession, and engaging the next generation. No restrictions regarding who serves on the board.
Control of grants and assets	Donor may recommend grants and investments, but the parent organization makes all final decisions.	Donor family has complete control of all grantmaking and investment decisions, subject to self-dealing rules.

NOTE: Information provided is for general guidance only. Please consult an experienced advisor regarding specific questions you may have. The National Center for Family Philanthropy cannot be held liable for specific decisions you make after reviewing this general guidance document.

Management and Other Issues	Donor-Advised Fund	Private Foundation
Flexibility in grantmaking	Donors may recommend grants to 501(c)(3) public charities, operating foundations, and units of government. Some DAF sponsors allow for grants for charitable activities of non-501(c)(3) organizations in the U.S. or grants to foreign nonprofits. They may charge extra for "expenditure responsibility" or "equivalency determination" work required by the IRS. DAFs cannot make grants to individuals or private non-operating foundations. They typically cannot be used for administrative or fundraising activities.	Private foundations may issue grants to 501(c)(3) public charities, operating foundations, units of government, and individuals, and for scholarships programs. They can spend money on direct charitable activities (e.g. run programs). They can conduct or pay for "expenditure responsibility" or "equivalency determination" work required by the IRS for grants for charitable activities of non-501(c)(3) organizations in the U.S. or grants to foreign nonprofits.
Flexibility in impact investing	Some DAF sponsors offer socially responsible investment funds or funds that include ESG (environmental, social, governance) factors in investment analyses. A few DAF sponsors allow for direct investments in, or loans to, nonprofit or for-profit social enterprises. The IRS imposes fewer rules than it does on private foundations, though the DAF sponsor may choose to follow the IRS rules for private foundations.	Within certain rules defined by the IRS. all private foundations can offer loans, equity investments, and other forms of financing to non-profits and for-profits (Program Related Investments and Mission Related Investments) and can invest in socially responsible and ESG funds.
Ongoing administrative and management costs	Varies with parent organization and level of services; typically less than SOs or PFs. Sponsor organization handles all financial and administrative management.	Varies with choice of board, and levels of services required. Board members must ensure that the financial and administrative functions are managed effectively.
Investment, accounting, audit, and tax return	Sponsor organization handles all investmenta, files annual tax return, obtains annual independent audit, and sends donors regular financial reports; sponsor controls endowment. Some sponsors will permit funds to be managed by the donor's financial advisor.	Board members must secure and oversee investments, and pay investment manager fees. The board controls endowments, sets policy, and chooses a manager.
Liability and insurance	Covered by the sponsor organization.	Board members are responsible for any coverage they deem necessary.

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Technology and equipment	Most sponsor organizations offer a convenient and sometimes highly sophisticated online platform for donors to access and manage their fund. Some of the smaller sponsor organizations do not offer online capabilities.	Private foundations range in terms of how formal or sophisticated they work. Some purchase grants management software and other technology tools and office equipment to do their work.
Tax deduction limits for gifts of cash *	50% of adjusted gross income	30% of adjusted gross income
Tax deduction limits for gifts of stock or real property *	30% of adjusted gross income	20% of adjusted gross income
Excise taxes	None	Excise tax of 1% to 2% of net investment income annually.
Valuation of gifts	Fair market value	Fair market value for publicly traded stock; cost basis for all other gifts, including gifts of closely-held stock or real property.

* Excess in any year's donations can be carried forward up to five years.

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