

The Philanthropy Services Group provides consulting and administration services to help clients design, establish and implement meaningful and strategic charitable giving plans aligned to their goals. Below are key differences between two charitable vehicles: private foundations and donor advised funds (DAFs).

Private Foundations VS Donor Advised Funds

A SIDE-BY-SIDE COMPARISON

	PRIVATE FOUNDATION	DONOR ADVISED FUND
Structure	<ul style="list-style-type: none"> An independent, free-standing legal entity which has received its own tax exempt status, a foundation is subject to specific tax laws and regulations. 	<ul style="list-style-type: none"> A charitable account that is housed and managed within a public charity (the sponsor), a DAF is subject to the rules of the sponsoring organization.
Governance	<ul style="list-style-type: none"> A board of directors or trustees is appointed by the founder(s) to implement a charitable mission and strategy, establish or maintain operating rules and procedures, and provide oversight. 	<ul style="list-style-type: none"> There is no board of directors or trustees, but the donor(s) are permitted to serve as grant advisors to the account.
Start Up and Fees	<ul style="list-style-type: none"> An attorney is retained to create governing documents, which require planning and decision-making about governance and process. If established as a corporation, the attorney submits an application to the IRS and files articles of incorporation with the state, naming a registered agent in the state. There are administrative costs or trustee fees. A foundation may hire and compensate staff, including family members, to provide professional services. 	<ul style="list-style-type: none"> Sponsoring organizations can quickly set up new DAFs for donors for a modest fee. Annual fees vary depending on the sponsor and include investment management. There are no filing fees. Hiring paid staff to manage the foundation is not an option.
Control	<ul style="list-style-type: none"> The founder(s) has control over the assets, including charitable purpose, grant procedures, and investments. Control may remain within the family for generations. For greater control, the founder may establish the foundation as a charitable trust through an irrevocable trust instrument or as a corporation with a trust as its sole member. Changes to the terms would require a court proceeding or the attorney general's approval. 	<ul style="list-style-type: none"> The donor does not have legal control over the assets or procedures. Once donated, the assets belong to the sponsoring organization of the DAF. The donor serves as a grant advisor and makes grant recommendations, which are generally executed. Some DAFs may offer the flexibility of separately managed investment accounts, if over a certain size.

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Flexibility in Grantmaking	<ul style="list-style-type: none"> May make grants to overseas organizations by making an equivalency determination and undertaking expenditure responsibility; to individuals for scholarships or emergency relief with prior IRS approval; and provide Program Related Investments (PRIs), including loans, loan guarantees, and equity investments. Foundations must meet a minimum 5% minimum distribution requirement. 	<ul style="list-style-type: none"> Grant recipients must be 501(c)(3) charitable organizations. DAFs may not make grants to private foundations, individuals, or foreign entities, nor engage in PRIs. There is no 5% minimum distribution requirement, which private foundations must meet.
Duration	<ul style="list-style-type: none"> The founder may provide legal and financial control to the family/ trustees for unlimited generations in order to create a legacy. 	<ul style="list-style-type: none"> Donors may appoint successor grant advisors for future generation(s), however duration of the fund may be limited depending on the sponsoring organization.
Tax Deductibility of Contributions	<ul style="list-style-type: none"> Cash donations: Up to 30% of the donor's AGI. Appreciated securities (FMV): up to 20% of AGI. Long term assets (property, notes, bonds, privately held stock): at cost basis, up to 20% of AGI. 	<ul style="list-style-type: none"> Cash donations up to 60% of the donor's AGI. Appreciated securities (FMV) and long term assets (property, notes, bonds, privately held stock) are deductible at FMV up to 30% of AGI.
Contribution of Assets	<ul style="list-style-type: none"> Foundations may own and hold cash, publicly traded securities and bonds, mutual funds, real property, and more. 	<ul style="list-style-type: none"> DAFs accept cash equivalents, public traded securities, and mutual funds. Contributions of certain real estate, private equity, or other illiquid assets may be accepted via a charitable intermediary with proceeds transferred to a DAF account upon liquidation. Some allow closely held stock.
Staff and Compensation	<ul style="list-style-type: none"> 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. 	<ul style="list-style-type: none"> Hiring staff paid for by the DAF is not an option. DAFs may not be used to hire or pay staff salaries.
Filing Requirements	<ul style="list-style-type: none"> Private Foundations are required to file an annual tax return (IRS 990-PF) and comply with other state filing requirements. 	<ul style="list-style-type: none"> No state or federal filings are required.
Annual Meetings	<ul style="list-style-type: none"> State law generally requires that a foundation set up as a nonprofit corporation, not a trust, hold annual meetings and keep meeting minutes. 	<ul style="list-style-type: none"> DAFs are not subject to filing and annual meeting requirements.
Privacy	<ul style="list-style-type: none"> Foundations must file detailed and public tax returns on grants, investment fees, names of directors or trustees, and salaries. 	<ul style="list-style-type: none"> Grants can be made anonymously and names of donors may be kept confidential.

Contact the Philanthropy Services Group if you have questions about establishing or managing a private foundation, donor advised fund, or other charitable vehicle.