

A SIDE-BY-SIDE COMPARISON OF
PRIVATE FOUNDATIONS AND
DONOR-ADVISED FUNDS

ATLANTIC TRUST

PRIVATE WEALTH MANAGEMENT

Foundation / **Source**

A Side-By-Side Comparison of Private Foundations and Donor-Advised Funds

What's Best for My Family?

Rebecca Riccio, Principal, *writeCHANGE*

Page Snow, Chief Philanthropic Officer, *Foundation Source*

Your Philanthropy, Your Terms

In looking to create a charitable vehicle, you may also be considering whether to establish a private foundation or a donor-advised fund (DAF). At the most basic level, a donor-advised fund is an account in a public charity whereas a private foundation is an actual charitable organization. Contributors to a donor-advised fund make irrevocable contributions to the sponsoring organization that administers that fund and makes decisions regarding its investments. They can recommend eligible charities as grant recipients, but the donor-advised fund's governing body is free to accept or reject any grant recommendation. Beyond this, the differences mainly revolve around control and flexibility.

A private foundation offers the flexibility and latitude to do many things that other charitable vehicles cannot. With a private foundation, you retain control over charitable donations and investments. You can hire staff, reimburse expenses, set up scholarship and award programs, and make grants directly to individuals in times of need. You can also contribute a much wider variety of assets to fund the foundation, such as "144" restricted stock, while retaining control over how the assets are invested.

In the past, conventional wisdom dictated that running a private foundation carried heavy legal and administrative burdens and required millions of dollars and many months to start. No longer. Today, you can work with Foundation Source to launch a private foundation in a matter of days, with funding of as little as \$250,000.

Charts comparing DAFs and private foundations often highlight the expense and administrative burden of running a private foundation, but Foundation Source's outsourced support solutions for private foundations render such comparisons obsolete. Private foundations are now as easy to set up and run as a donor-advised fund thanks to advanced technology and outsourced services that automate and simplify the way private foundations are operated.

To determine which charitable giving option is most closely aligned with your goals, it is necessary to understand what each vehicle enables you to do as a philanthropist. The following chart illustrates some of the important differences between a private foundation powered by Foundation Source and a DAF:

	Private Foundation powered by <i>Foundation Source</i>	Donor-Advised Fund*
Manage your own investments	Yes. A foundation exercises total control over its investment strategies, vehicles, policies and managers. It may also engage in mission-related and socially-responsible investing. We do not provide financial advice nor do we manage or custody assets. Financial control rests entirely with you, your wealth advisor and your financial institution. We can coordinate closely with your advisors to track investments and income, and reconcile this data against the foundation's financial statements.	To some extent. The donor typically may recommend how charitable assets are invested within a pool of investment options offered by the sponsoring organization. One's financial advisor may make recommendations about investment allocations within this pre-defined pool. For larger accounts (typically \$250,000 or more), the donor may be able to nominate an independent advisor to manage the investment portfolio, subject to the sponsoring organization's authorization.
Control grant allocations	Yes. Grantmaking decisions are fully controlled by the foundation. Grants can be made to a wide range of institutions and individuals in the United States and abroad.	No. The donor advises the DAF about which grants to make. The sponsoring organization typically honors these recommendations, but ultimately retains control over grant allocations drawn from the DAF. Generally the donor can recommend grants only to IRS-qualified, United States-based public charities.
Contribute diverse types of assets	Yes. Contributions to the foundation may include cash, publicly traded securities, mutual fund shares, publicly traded bonds, cash value of a life insurance policy, IRA assets, real estate, jewelry, art work, etc.	Sometimes, not always. Contributions may be limited to cash equivalents, publicly traded securities, and shares of some mutual funds. In some cases, high-value non-cash assets may be accepted directly by the sponsoring organization or a charitable intermediary to be liquidated prior to deposit and may incur additional brokerage fees.
Contribute assets to another charitable vehicle	Yes. A foundation may make contributions to a DAF.	Within limits. Contributions cannot be made from a DAF to a non-operating foundation (most family foundations are non-operating foundations) but can be made to an operating foundation (i.e., one that runs its own programs).
Convert to another type of charitable vehicle	Yes. A foundation may be converted to a DAF.	No. Contributions to a DAF are irrevocable, owned and held by the sponsoring organization.
Begin grantmaking with a limited initial investment	Yes. Foundations Source makes it cost-effective to establish a foundation with as little as \$250,000.	Yes. The minimum investment required to establish a DAF is usually \$5,000 - \$10,000, although some funds may require an initial contribution of \$25,000.

*Policies and procedures vary between DAFs. The information provided in this document is based on standard practice, but donors should familiarize themselves with the particulars of any DAFs they are considering.

	Private Foundation powered by <i>Foundation Source</i>	Donor-Advised Fund*
Meet federal minimum distribution requirement (MDR)	Yes. The IRS requires private foundations to meet an annual 5% minimum distribution requirement based on the previous year's net assets. Allowable expenditures include grants and qualified expenses. Foundation Source tracks payout on a daily basis to ensure compliance.	No. There is typically no minimum distribution requirement for a DAF. However, the sponsoring organization may enforce a minimum distribution requirement on DAFs under its control if it has not reached its annual institutional distribution target.
File state and federal tax returns	Yes. The foundation is required to file an annual IRS Form 990-PF and comply with other state and federal filing requirements. Foundation Source prepares and files all federal returns and filings for the state in which the foundation was formed or incorporated. Foundation Source works with tax and legal professionals retained by the foundation or family, as requested.	No. The donor does not need to file distinct state and federal tax returns for the DAF, although contributions to the DAF qualify as charitable contributions for personal tax filing.
Establish a personal charitable institution	Yes. A foundation is a distinct legal entity. Foundation Source provides the corporate entity and handles the IRS filing for tax-exempt status.	No. A DAF is not a legal entity. It is a fund held and managed by the sponsoring organization, which is a public charity.
Appoint a board of directors or trustees	Yes. Once the foundation is established as a legal entity, the donor may appoint a board of directors or trustees and establish operating rules and procedures. At least one board member is required, but the board may be larger depending on the foundation's needs and family's interests.	No. A DAF is not a legal entity, so it cannot have a board of directors or trustees.
Hire staff	Yes. A foundation may hire staff to implement its philanthropic strategy. For those that do not wish to build their own infrastructure, Foundation Source provides a wide range of expert services and "virtual staffing."	No. A DAF does not have staff.
Pay expenses associated with grantmaking etc.	Yes. All reasonable and necessary expenses associated with the charitable purpose of the foundation, including startup, board meetings, administration, site visits, legal counsel, etc., may be paid by the foundation. These expenses count toward the minimum distribution requirement imposed by the IRS. Foundation Source fees also are an allowable expense.	No. No expenses may be paid with a DAF.

*Policies and procedures vary between DAFs. The information provided in this document is based on standard practice, but donors should familiarize themselves with the particulars of any DAFs they are considering.

	Private Foundation powered by <i>Foundation Source</i>	Donor-Advised Fund*
Maintain legal control by the donor's family in perpetuity	Yes, if the board chooses. Decision-making authority is retained collectively by the board of directors or trustees, which is obligated to propagate itself or dissolve the foundation. Legal control of the foundation can remain within the family for unlimited generations, provided succession plans are established to preserve family on the board.	No. The family never has legal control of the DAF.
Retain financial control within the family in perpetuity	Yes, if the board chooses. Financial control can remain within the family for unlimited generations at the discretion of the board of directors or trustees, who are collectively responsible for decisions regarding the disposition of foundation assets and accountable to the foundation's by-laws and operating procedures.	Not always. Successor policies are established by each sponsoring organization and may leave control over the future of the DAF up to the individual successor(s). Typically, the original donor is allowed to appoint one or more successors who in turn appoint their own successors, sometimes for a limited number of generations. If no successor is appointed or if a DAF remains dormant for a specified number of years, the account may revert to the control of the sponsoring agency. Larger DAFs may include an endowment option to continue recurring grants after the death of the last account holder.
Engage family members in grantmaking	Yes. Family members may be engaged in the governance, decision making, and day-to-day activities of running the foundation. Foundation Source provides an online platform for communicating, collaborating, and managing the family's philanthropy. Foundation Source also allows the foundation to give limited granting rights to family members and other individuals not directly involved with the foundation.	Yes. The donor can name additional advisors to participate in all account privileges. The DAF may limit the number of advisors.
Appoint family members to board of directors or trustees	Yes. Children, spouses, or other family members may be appointed as officers, trustees, or directors.	No. A DAF is not a legal entity, so it cannot have a board of directors or trustees.

*Policies and procedures vary between DAFs. The information provided in this document is based on standard practice, but donors should familiarize themselves with the particulars of any DAFs they are considering.

	Private Foundation powered by <i>Foundation Source</i>	Donor-Advised Fund*
Compensate family members	Yes. Subject to certain limitations, a foundation may compensate family members for charitable foundation activities. Foundation Source can assist clients in understanding the relevant regulations and facilitate proper procedures.	No. Family members may not be compensated with funds from the DAF.
Start giving quickly	Yes. A private foundation can be established through Foundation Source in as little as three days.	Yes. A DAF can be initiated in person or online quickly.
Manage the grantmaking process	Yes. A foundation can establish its own procedures for soliciting, receiving, reviewing, approving, and following up on grant proposals, issuing reporting requirements and monitoring reports as part of its formal relationship with grantees. Foundation Source can help design these processes in accordance with best practice. Foundation Source's online tools automate and simplify the grantmaking process.	To some extent. Donors are advisors to the DAF, not grantmakers, but some sponsoring organizations provide tools and services to help donors formulate recommendations. Online tools are available to simplify the recommendation process. Donors may take additional steps independently to educate themselves about grantees and track their progress, but they do not have a direct financial relationship with them.
Leverage institutional visibility to increase impact	Yes. A foundation provides a platform for drawing attention to specific causes and utilizing multiple giving strategies to achieve more than an individual typically can.	Not as an institution. A DAF is an account, not an institution. The donor may leverage the family's identity and otherwise work on behalf of a charity or cause on a personal basis, but not as an agent of the sponsoring organization or DAF.
Control delivery of grant checks	Yes. Foundation Source prepares grant checks and transmittal letters at the foundation's request. These can be delivered directly to the recipient, or to a designated foundation officer for personal delivery.	No. The donor is not an agent of the DAF and is not given control over the execution of grants. Grant checks and transmittal letters are issued directly by the sponsoring organization. The DAF name and donor may be acknowledged on these documents at the request of the donor during the grant recommendation process.
Vet grantees	Yes. A foundation must ensure that grantees are eligible to receive grants under all applicable laws and regulations. Foundation Source provides an online database of over one million charitable organizations to verify that each grantee is recognized by the IRS as a valid 501(c)(3) public charity or is otherwise eligible for a grant.	Yes. The sponsoring organization verifies that grant recipients are eligible to receive grants under all applicable laws and regulations. The sponsoring organization may also provide online databases that enable donors to verify grantees' status.

*Policies and procedures vary between DAFs. The information provided in this document is based on standard practice, but donors should familiarize themselves with the particulars of any DAFs they are considering.

	Private Foundation powered by <i>Foundation Source</i>	Donor-Advised Fund*
Give anonymously	No. A foundation must file an IRS Form 990-PF listing assets, contributors, and grants. Foundation Source prepares and files all federal foundation-related tax returns.	Yes. The donor may decide whether to be named or remain anonymous.
Make gifts to individuals and families facing hardships, emergencies, or medical distress	Yes. A foundation may make grants to individuals under certain conditions. Foundation Source ensures that such gifts comply with IRS requirements.	No. Donors may not recommend that grants be made to individuals.
Give to international organizations	Yes. A foundation can make grants to overseas charities and non-governmental organizations that serve a clear charitable purpose as long as they are compliant with federal laws and regulations governing international giving. Foundation Source can assist in these determinations.	Not directly. Donors can usually recommend grants only to U.S.-based public charities, to international organizations that have U.S.-based affiliates, or to domestic charities that will accept responsibility for following regulations regarding expenditure oversight reporting for an international grant recipient, generally for a fee.
Provide scholarships	Yes. A foundation may provide scholarships, fellowships, and awards based on IRS guidelines. Foundation Source provides assistance in designing such programs and obtaining IRS approval.	Not directly. DAF grants may only be made to an organization that administers a scholarship program, not directly to scholarship recipients, not directly to individuals from the DAF.
Engage in Program-Related Investments (PRIs)	Yes. A foundation may engage in a variety of innovative ways to fund organizations, including loans, loan guarantees, and equity investments. PRIs earn returns for the foundation and are recycled back into the giving pool, so they do not drain assets like traditional grants. Foundation Source supports these activities.	No. A DAF offers a single mechanism for giving: grantmaking.
Make gifts to for-profit businesses and tax-exempt organizations that are not 501(c)(3) entities, such as civic leagues, labor organizations, and business leagues	Yes. A foundation may make these gifts to these entities provided they are for charitable purposes. Foundation Source can support these grants.	No. A DAF may only issue grants to IRS-approved charitable organizations.
Run programs	Yes. A foundation may run its own programs and pay for related expenses (supplies, salary, rent, etc.), provided these activities fall within the IRS guidelines. Foundation Source provides support for these direct charitable activities.	No. A donor may engage in such activities privately, but may not use DAF funds to support them.

*Policies and procedures vary between DAFs. The information provided in this document is based on standard practice, but donors should familiarize themselves with the particulars of any DAFs they are considering.

	Private Foundation powered by <i>Foundation Source</i>	Donor-Advised Fund*
Make institutional pledges	Yes. A foundation may not fulfill personal pledges made by the donor, officers, or family members, but the foundation itself may make pledges.	No. A DAF may not be used to fulfill pledges.
Create grant agreements	Yes. A foundation may enter into agreements with grantees when making conditional grants, major gifts, grants that involve naming rights, complex assets, or multi-year programs. Foundation Source facilitates and oversees the entire process, including drafting of the grant agreement by outside counsel if necessary.	No. The donor may not hold the grantee accountable in any way, except to withhold future recommendations to the DAF.

What is the Bottom Line?

Ultimately, your choice of a philanthropic vehicle must be consistent with your financial goals. The tax deductions associated with private foundations and DAFs are important to understand. DAFs are frequently promoted as the better wealth management solution because they offer higher tax deduction limitations. In practice, tax deduction limitations do not typically represent a barrier to private foundation donors.

First, many individuals do not reach the Adjusted Gross Income (AGI) limits on tax deductions. When they do, contributions that exceed the respective annual limits can be carried over to subsequent years. Second, contributions can be made both to a private foundation and to a public charity in a single year, so if the maximum 30% AGI limit of cash contributions to the foundation is reached, additional cash contributions of up to 20% AGI can be made directly to one or more public charities, including DAFs.

Finally, private foundations and DAFs do not present an either/or proposition. In many cases, using a DAF and private foundation together can be the optimum solution for managing wealth and achieving philanthropic impact.

	Private Foundation powered by <i>Foundation Source</i>	Donor-Advised Fund*
Total limit for all annual contributions combined	30% AGI	50% AGI
Tax deduction for contributions of long-term appreciated securities	Fair market value up to 20% AGI	Fair market value up to 30% AGI
Tax deductions for long-term appreciated assets and closely-held securities	Cost basis up to 20% AGI	Fair market value up to 30% AGI
Tax deduction for cash contribution	Up to 30% AGI	Up to 50% AGI

*Policies and procedures vary between DAFs. The information provided in this document is based on standard practice, but donors should familiarize themselves with the particulars of any DAFs they are considering.

ABOUT US

Atlantic Trust has partnered with Foundation Source, the nation's largest provider of comprehensive support services for private foundations, bringing unparalleled knowledge and expertise to clients across the country. The result: better-run, more effective foundations and more enjoyable philanthropy.

Foundation Source provides its services to more than 1,100 family, corporate, and professionally staffed foundations nationwide, ranging in size from \$500,000 to \$500 million. The company's administrative services, online foundation management tools, and philanthropic advisory services provide a total outsourced solution for private foundations, while Atlantic Trust manages the foundation's assets. This combined approach frees donors and families to enjoy their philanthropy with total ease and confidence while we handle the details.

We work with both established foundations and individuals interested in starting a new foundation.

CONTACT ATLANTIC TRUST

Atlanta	404.881.3400	Houston	832.941.5760
Austin	512.651.7800	Newport Beach	949.660.0080
Baltimore	410.539.4660	New York	212.259.3800
Boston	617.357.9600	San Francisco	415.433.5844
Chicago	312.368.7700	Washington, D.C.	202.783.4144
Denver	720.221.5000	Wilmington	302.884.6775

www.atlantictrust.com

ATLANTIC TRUST

PRIVATE WEALTH MANAGEMENT



A CIBC Company

Foundation Source

Foundation Source

55 Walls Drive, Fairfield CT 06824

P 800.839.0054

F 800.839.1764

www.foundationsource.com

Denver | Los Angeles | New York City | Philadelphia | San Francisco
South Florida | Washington D.C. | Winston-Salem