

# CHARITABLE VEHICLES: CERTAIN DONOR ADVISED FUND BENEFITS NOT AVAILABLE TO PRIVATE FOUNDATIONS



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Selecting the appropriate charitable vehicle for your client is as important as choosing the charitable causes they wish to support. Private foundations are popular among affluent donors and are powerful philanthropic vehicles; however, they have administrative burdens that can be costly and time consuming to maintain. Before you advise your client to establish a private foundation, please have them consider a donor advised fund which has certain benefits not available for private foundations, as outlined below.

**1. Simplicity:** A donor advised fund (DAF) is flexible and inexpensive to establish, and can be created in a short time. By comparison, a private foundation requires a donor to create a new 501(c)(3) organization, apply for tax-exempt status, pay filing fees, and incur other ongoing legal and accounting expenses.

**2. Higher Tax Deduction:** Gifts to community foundations provide higher income tax deductions than gifts to private foundations. For example, a cash gift to a community foundation may be deductible up to 60% of the donor's adjusted gross income (AGI); whereas a cash gift to a private foundation may be deductible up to 30% of the donor's AGI.

**3. No Excise Tax and No Minimum Distribution Requirement:** No excise tax is imposed on the investment income of a charitable fund at a community foundation because it is a component fund of a public charity. A private foundation pays 1.39% federal excise tax on its investment income and net realized capital gain. Further, there is no minimum distribution requirement for a DAF which allows the fund to grow for family legacy, provided the family has a plan for future distributions. A private foundation must annually distribute 5% of its net investment assets.

**4. Naming Rights and Family Legacy:** The Community Foundation of Sarasota County offers flexibility in naming and recognition for the DAF. A DAF can be titled the "Smith Family Foundation" and all grants from the DAF will be made in this name. Family members may be named as successor advisors to the DAF to connect them to the family's philanthropic values for generations. A donor to a DAF may also remain anonymous. A private foundation must make available to the public the name and address of any substantial contributions.

**5. Community Expertise:** The Community Foundation of Sarasota County works in collaboration with professional advisors and their clients to create a lasting charitable impact for nonprofit organizations and communities they care about. Our Foundation will handle all the financial, investment, grant check writing, and general administrative management of the DAF; whereas the Trustee of a private foundation must perform, contract, or hire staff for these services. Our Community Foundation has a large staff with significant community and philanthropic knowledge. They work with families to help identify the goals and grant-making priorities for the family, as well as educate the family on different strategies for effective grant-making. Our Foundation will provide extra assistance in identifying potential grant opportunities and can monitor the performance of a nonprofit organization.