



DONOR ADVISED FUNDS: OFTEN AN EASIER, LESS COSTLY OPTION TO PRIVATE FOUNDATIONS

An Alternative to a Private Foundation

A Donor Advised Fund may be an appropriate alternative to a private foundation by meeting the charitable, financial, and estate planning needs you may have. The Los Altos Community Foundation can help you analyze the pros and cons of creating a Donor Advised Fund or a private foundation.

In recent years, the appeal for wealthy individuals to establish a private or family foundation has been minimized by significant limitations on charitable deductions available for gifts to private foundations. Instead, many are turning to their local community foundation to create a philanthropic fund.

Donor-Advised Fund Benefits

Contributions to Donor-Advised funds (DAFs) are immediately tax-deductible. Then, donors can grant out to 501(c)(3) nonprofit organizations at their convenience over one or multiple years. LACF can provide advice, if the donor desires. LACF provides administrative, accounting, tax reporting, and IT support to for donors.

Private Foundation Considerations

A private foundation allows extensive donor control over distributions and board selection. However, the government highly controls private foundations with many special restrictions, including administrative and reporting requirements, excise taxes, and a required minimum annual payout.

Why transferring a private foundation to LACF may be right for you

It is relatively easy to transfer a private foundation into a Donor Advised fund at LACF. After you do that the Foundation will take care of administrative functions and tax reporting requirements, allowing you to concentrate on grantmaking. You have access to the Foundation's experienced staff for research on community needs and compliance with grantmaking procedures. Because it is a public charity, the tax benefits for gifts to LACF may be greater than gifts to a private foundation.

Contact Us

Since 1991, LACF has facilitated all forms of charitable giving. Our mission is to strengthen the community by stimulating philanthropy and civic engagement. Our expertise in grantmaking, local giving, and community leadership offers you a trusted advisor, partner, connector, and friend who will help you personalize your philanthropy. The Foundation can maximize your gift's potential and make your philanthropy effective, meaningful, and enjoyable. For more information, please call Joe Eyre at (650) 949-5908 or email at joe.eyre@losaltoscf.org.

Comparison of LACF Donor Advised Fund and Private Foundation

Features	LACF Donor Advised Fund	Private Foundation
Start-Up Considerations	No start up fee. Simple agreement to open fund; can be set up immediately. Minimum initial contribution to fund is \$5,000.	Must incorporate as a nonprofit or create trust and apply to IRS for tax-exempt status. Cost can be several thousands of dollars and take months to establish.
Distribution Requirements	None.	5 percent of assets annually.
Donor Involvement in Grantmaking	Donor recommends grants to qualified nonprofit organizations or funds. Grants are approved by LACF's board of directors.	Donor appoints board or trustees who control grantmaking and must ensure grant recipients are qualified nonprofits.
Donor Control	Broad flexibility in grantmaking. Donor provides advice to Foundation board on grants. The current and future purpose of fund is defined by the donor setting up the fund.	Flexibility of grantmaking is determined by the board. Donor retains complete control over board, investments, and grantmaking (subject to IRS regulations) Foundation's purpose may be changed by future Board.
Grantmaking Administration	Fund owners can send grant requests to LACF via email or donor's private online fund portal. LACF verifies grant recipient's nonprofit status, creates and sends checks along with grant agreement.	Responsible for all administration activities and costs, including payroll, audit, compliance, legal, etc.
Grantmaking Support	LACF professional staff can assist in defining and supporting donor's philanthropic goals, helping to define grantmaking strategy, suggest grantees, provide input on community needs and verify nonprofit status of organizations.	Board must determine nonprofit and community needs and arrange and support all grantmaking. Additional support must come from family members and/or from hired or volunteer staff that must be managed or directed.
Online Access	Donor has free access to online, private portal to view fund contributions, request grants, view past grants, and to review monthly fund reports.	Grantmaking software must be purchased, customized, and maintained by private foundation.
Grantmaking geography	Can grant to any 501(c)(3) nonprofit in U.S. (Most international nonprofits have an office in the U.S. that can receive tax-exempt donations)	Can grant directly to international organizations, but subject to certain restrictions and additional documentation.
Privacy	Donor can select level of public disclosure. For example, donor names, grant amounts and/or grant recipients can be confidential. Grants can be made anonymously. Fund contributions and balance are private.	Full public disclosure of tax returns on grants, investment fees, staff, salaries, etc. Identity of major donors required.
Generational Transfer	Donor may name one or more generations of successor advisor(s) to the fund.	May continue for future generations.

Investment options	Donor selects from two pools to invest in; Long Term Growth or Cash. LACF's Long Term Growth fund is managed by independent investment management firm.	Donor appoints board or trustees who control and are responsible for investments. Must research and secure its own investment vehicles.
Tax Status	A fund that qualifies as a public charity under LACF's 501(c)(3) tax status.	Private charity as a separate 501(c)(3) organization under Section 509(a).
Tax Deductibility	Public charity deductibility – market value Property: 30% AGI Cash: 50% AGI	Property: 20% AGI Cash: 30% AGI
Excise taxes	Exempt from excise taxes	Excise taxes (Section 4940-4945) 1-2% of investment income
Annual Tax Filings and Returns	All accounting and tax reporting done by LACF as part of its annual reporting.	Must independently perform financial and administrative services or hire staff; annual tax returns, schedules, 990-PF, and reporting required.
Fiduciary Responsibility & Legal compliance	LACF fulfills required fiduciary and legal responsibilities	The private foundation board has full fiduciary and legal responsibility
Liability & Risk Insurance	Provided by LACF	Must be purchased by the private foundation
Self-Dealing Rules	Private foundation self-dealing rules do not apply.	Strict regulations prohibit most transactions between a private foundation and its donors (including related persons or corporations)
Marketing of grants and recipients	LACF can provide marketing of grantmaking, depending on donor's preferences.	Staff or outsourced contractors must create marketing materials, web site, etc.