

Donor Advised Fund:

An alternative to creating a private foundation.

Two foundation-type vehicles for giving are donor advised funds and private foundations. A donor advised fund (DAF) has clear advantages over a private foundation:

1. Ease of set up.

You can set up a DAF in as little as a day. With a private foundation, you must incorporate, and then apply for IRS approval to attain tax-exempt status.

2. Greater tax deduction for cash gifts.

When you have a DAF, up to 50% of adjusted gross income (AGI) can be deducted, versus 30% or less of AGI with a private foundation.

3. Greater tax deduction for gifts of publicly traded stock and other non-liquid assets.

When you have a DAF, up to 30% of adjusted gross income (AGI) can be deducted, versus 20% or less of AGI with a private foundation.

4. Greater tax deduction for gifts of closely held stock or other non-liquid assets.

You can take a deduction at fair market value when you have a DAF, whereas your deduction is generally limited to a cost basis when you have a private foundation.

5. Greater anonymity.

Grants made from your DAF can be made anonymously. Grants made from your private foundation typically identify your foundation as the source. And annual tax returns filed for private foundations are open for public viewing.

6. *Lighter administrative burden.*

When you open a DAF, the community foundation coordinates all administration, distribution (grant-making), investment management and record keeping. (Sometimes you can manage your DAF online.) When you operate a private foundation, you're responsible for managing assets, balancing books, keeping records and preparing tax returns.

7. *Lower initial costs.*

A DAF requires no set-up fees, and fees for gifts of real estate and other non-liquid assets are reasonable. A private foundation brings set-up costs, plus accounting, legal and tax-related costs.

8. *Lower ongoing costs.*

The cost to maintain your DAF is low (1% or less of the fund balance) because costs are pooled to keep overhead low. When you operate a private foundation, you must pay for liability insurance, as well as administrative, tax and accounting costs.

9. *No excise taxes.*

A DAF requires no excise tax. A private foundation requires you to pay up to 2% excise tax on investment income each year, and places restrictions on self dealing.

10. *More flexible distribution requirements.*

With a DAF, there are no minimum distribution (grant-making) requirements. With a private foundation, you must distribute at least 5% of your fund annually.

11. *The Community Foundation may help you verify charities' tax-exempt status.*

Some community foundations verify the tax-exempt status of

charities receiving grants from your DAF. With a private foundation, verification is up to you.