

DAFs vs. Private Foundations

Is there a “best” way to give?

By Ashley Fontanetta, Senior Vice President, Client Advisor, Whittier Trust

“When I speak with a client about charitable giving, the most common question is whether they should create a private foundation or use a donor-advised fund,” says [Ashley Fontanetta](#), Senior Vice President, Client Advisor at [Whittier Trust](#). “Unfortunately, there’s no quick and easy answer except this: It depends on your priorities.”

A simple conversation with the Whittier Trust [Philanthropic Services](#) Team can help a client get to the heart of those priorities. Our advisors might begin, for example, by asking who will be involved in your charitable giving and in what capacity. They’ll need to know what types of assets are being used to fund the entity and in what amount. And they’ll want to discuss how much importance you place on control.

The answers to these and related questions will typically point to which charitable structure is the best fit for a client. But first, let’s make sure everyone understands the essential differences between DAFs and private foundations.

PRIVATE FOUNDATIONS

“[Private foundations](#) are often the go-to choice because they are the best-known option,” says Fontanetta. “But that doesn’t necessarily make them the right choice for you.” Charitable foundations are governed by legal rules that are too restrictive or cumbersome for some clients. The key rule is that a private, non-operating foundation has the legal obligation to distribute no less than 5% of its average asset value to qualified charities each year. So, to give a simplified example, if your family created a private foundation that averaged total assets of \$10 million, you would be obligated to distribute \$500,000 per year for charitable purposes.

Private foundations can be created as a corporation or a charitable trust. They are often governed by a board of Directors or Trustees and can either be set up to last in perpetuity, or to sunset and

shut down after a certain period of time. “One of the unique advantages of private foundations is that they can pay for expenses related to their charitable purpose,” Fontanetta adds. “For example, family members might travel to visit a grantee for a site visit or attend a conference to learn about an issue area. The foundation can even pay stipends or salaries for people who serve as board members or staff. In contrast, donor-advised funds cannot be used for any such expenses.”

DONOR ADVISED FUNDS

A [donor-advised fund](#), or DAF (pronounced as a word, *daf*, not the initials D-A-F) is like a checking account for charitable giving, Fontanetta explains. “Once a donor places money into the DAF, they receive an immediate charitable deduction for the contribution. After that, the donor can advise (request) charitable distributions to be made to any 501(c)(3) public charity in good standing.”

Much like a checking account is held at a banking institution, DAFs are held at a sponsoring organization, such as a community foundation, financial institution, or large nonprofit. A key difference, however, is that as soon as funds are placed into a DAF, the sponsoring organization owns those assets. The sponsor might have certain rules about how they operate their DAFs, but generally, they allow for the donor and any other individuals named by the donor to advise as to where charitable distributions should be made. This is an important distinction: Since the money in the DAF technically no longer belongs to the donor, they are not directing grants, simply advising as to who the charitable recipients should be. Sponsoring organizations differ in the ways they handle investments, succession, and acceptance of certain assets, so it’s very important to interview sponsoring organizations before deciding where to open your DAF.

BEST FIT

Returning to the original question—private foundation or DAF—we hope you might now be seeing some distinctions that might make the answer more readily apparent for you.

“The best piece of advice I can give is don’t go it alone,” says Fontanetta. “There are multiple resources and forums for philanthropy to help guide your journey, whether you’re considering a private foundation or a donor-advised fund. Of course, the credentialed professionals on our team at Whittier Trust are always at your service.”

Over the last four decades, Whittier Trust has advised several generations of affluent families on their philanthropic choices. Philanthropy is a key component in the overall financial management and estate planning services Whittier provides and can also be a cornerstone of your family’s personal relationships and legacy.