

# DONOR ADVISED FUND VS. PRIVATE FOUNDATION

## THE DIFFERENCES ARE CLEAR.

The choice between a donor advised fund and a private foundation can be puzzling to donors — but a point-by-point comparison can clarify the many distinctions.

Because of structural disadvantages and market volatility, studies show that private foundations with assets of \$10 million or less are ordinarily too small to operate efficiently.

Even with larger sums, a private foundation offers relatively few advantages for all except those fully committed individuals who wish to be “in the business” of philanthropy.

For many donors, the administrative and other burdens of managing a private foundation can overshadow their primary desire to do good.

**A donor advised fund with the Community Foundation of Collier County offers the welcome alternative of powerful features without inconvenience.**

Community Foundation of Collier County  
cfcollier.org | 239.649.5000

1110 Pine Ridge Road, Suite 200 Naples, FL 34108



	PRIVATE FOUNDATION	DONOR ADVISED FUND <i>with the Community Foundation</i>
<b>INITIAL COST</b>	Typically \$5,000 or more	None
<b>START-UP TIME LINE</b>	Typically months	Immediate
<b>ADMINISTRATION</b>	Substantial grant research and tax reporting administration — also management of assets, record keeping, grant administration and maintenance of board minutes	CFCC provides all grant research and tax reporting, asset management, record keeping — with no need for foundation board minutes
<b>IRS REPORTING</b>	Form 990-PF must be filed annually	No annual Form 990-PF is necessary
<b>ANNUAL DISTRIBUTIONS</b>	Required at 5% of net investment assets per year, regardless of investment returns	None required
<b>GIFT VALUATION</b>	Fair market value for publicly traded stock — but cost basis for all other gifts, including closely held stock, real estate or other real property	Fair market value
<b>CHARITABLE TAX DEDUCTIONS</b>	Annual limit on cash donations: 30% of adjusted gross income (AGI) Annual limit on securities held more than one year: 20% of AGI Long-term capital gain property usually deductible at cost basis	Annual limit on cash donations: 60% of adjusted gross income (AGI) Annual limit on securities held more than one year: 30% of AGI Long-term capital gain property usually deductible at fair market value
<b>EXCISE TAXES</b>	Ordinarily 1%-2% of annual net investment income	None
<b>OPERATING COSTS AND FEES</b>	Typically in the range of 2%–4% per year	1.1% or less, plus investment management fees
<b>ANONYMITY AND RECOGNITION</b>	All foundation grants are a matter of public record — with detailed tax returns on grants, investment fees, trustee names, staff salaries	Fully anonymous grants are among your many naming and recognition options
<b>ONLINE CONTROL</b>	Possible to build	Already in place
<b>MINIMUM ASSETS</b>	Typically \$10 million and up	\$10,000
<b>MAXIMUM ASSETS</b>	No maximum	No maximum
<b>INVESTMENT OPTIONS</b>	Self-generated selection of initial investments and ongoing due diligence of investment managers	Professional, philanthropically-oriented investment managers or your own investment managers for funds of \$1 million and up
<b>PHILANTHROPIC CONSULTATION</b>	Developed in-house and/or sourced through consultant engagements	Provided by the Community Foundation at no additional cost



# CONVERTING A PRIVATE FOUNDATION INTO A DONOR ADVISED FUND

The decision to convert a private foundation into a donor advised fund may be made by looking at what you keep, what you gain, and what's not required.

WHAT YOU KEEP	WHAT YOU GAIN	WHAT'S NOT REQUIRED
IDENTITY	LARGER TAX DEDUCTION ON FUTURE GIFTS	ANNUAL REQUIRED DISTRIBUTION OF 5%
CHARITABLE INTENT	PROFESSIONAL INVESTMENT MANAGEMENT	EXCISE TAX
GRANT MAKING	SELECTIVE ANONIMITY	TAX RETURN AND AUDITS
FAMILY LEGACY	GRANT MAKING SUPPORT	HIGH EXPENSES

## WHAT YOU KEEP

**IDENTITY** A donor advised fund lets your family or the original founding donor retain its identity and stature in the community. For example, the Withorn Family Foundation typically becomes the Withorn Family Fund.

**CHARITABLE INTENT** The same mission and focus of a private foundation can be incorporated into guidelines and objectives of your donor advised fund.

**GRANT MAKING** As fund advisor(s), you recommend grants, which are then vetted and approved by the Community Foundation of Collier County. Community Foundation staff ensures that your fund, and the organizations you recommend for support, comply with all IRS guidelines and requirements.

**FAMILY LEGACY** A fund established at the Community Foundation of Collier County allows families to teach their children and subsequent generations the importance and wisdom of philanthropy that can make a positive impact in the community, the region and the nation. Successor fund advisors can also be named for succeeding generations.



## WHAT YOU GAIN

**LARGER TAX DEDUCTION ON FUTURE GIFTS** As a public charity, the fund will retain favorable tax status compared to a private foundation. Future cash gifts to the fund are deductible up to 60% of adjusted gross income vs. 30% for a private foundation. Additional gifts of appreciated property are deductible up to 30% of adjusted gross income vs. 20% for a private foundation.

### PROFESSIONAL INVESTMENT MANAGEMENT

Fund holders gain professional investment management of their assets. Oversight is provided by the Community Foundation's Finance Committee, comprised of members who are experienced investors and investment professionals.

Additionally, due to the Community Foundation's economy of scale, investment fees are much lower than similarly structured private portfolios. Funds with assets of \$1 million or more also have the option of recommending an outside investment manager with the approval of the Finance Committee.

**SELECTIVE ANONIMITY** While most individuals and families are comfortable with recognition for their generosity, some may desire anonymity. Fund advisors can either choose to be recognized or make grants anonymously.

**GRANT MAKING SUPPORT** The Community Foundation has a professional grant making staff with deep knowledge of the organizations that comprise our community's vibrant nonprofit community. Individuals and families who have donor advised funds at the Foundation have access to this expertise as they seek knowledge about specific organizations and make decisions about their philanthropic interests and grant making.

### DONOR ADVISED FUND ADVANTAGES:

- Control over identity
- Significantly high limits of deductibility
- Professional portfolio management
- Anonymity options
- Grant making support
- Lack of distribution requirements
- No excise tax
- No tax returns or audits

## WHAT'S NOT REQUIRED

**DISTRIBUTION REQUIREMENTS** IRS regulations require private foundations to distribute at least 5% of the foundation's assets each year. Donor advised funds currently have no such annual requirement. This provides fund advisors with flexibility in their grant making.

**EXCISE TAX** Private foundations are required to pay a 1-2% excise tax on investment income. Donor advised funds at the Community Foundation are not subject to such tax.

**TAX RETURNS AND AUDITS** Private foundations are required to file annual Form 990-PF tax returns and, depending upon the size of the private foundation, may need annual audits as well as incur legal expenses. These administrative costs and functions are not required of funds at the Community Foundation.

**HIGH EXPENSES** The annual cost of administering a private foundation is typically three to six times more than administering a donor advised fund through the Community Foundation.

