



# DAF Insights for Advisors

Expertise and tools to help advisors deepen the philanthropic conversation

## What's Best for My Client: Private Foundation or DAF?

By Dawn Fournier, Director of Development, Northeast

Many of your clients may be ready to move beyond checkbook giving. Some may want to involve their families more deeply in philanthropy. Others may wish to pre-fund their giving in a high-income year, and still others may seek to streamline their recordkeeping. How can you help them achieve their goals?

While there are a range of charitable giving vehicles to consider, many clients will end up choosing between a private foundation and a donor-advised fund (DAF). Today, there are around 80,000 independent foundations and more than 728,000 donor-advised fund (DAF) accounts, according to National Philanthropic Trust's 2019 [DAF Report](#).

Both giving vehicles allow families to collaborate and, depending on the DAF sponsor, to establish a philanthropic legacy in perpetuity. Customized grant agreements and international giving are also available with a private foundation or an [NPT DAF](#). But DAFs and foundations have distinct differences. To help your clients determine which one may work best for their charitable goals and giving preferences, ask them these key questions:

**How much do you plan to set aside for charitable giving?** As a starting point, talk to your clients about the size of their initial contribution, as well as their anticipated giving over time. While there is no upper dollar limit for a DAF or a foundation, there are differences in minimum contributions. For instance, DAFs comprise both large accounts with \$500 million or more and small accounts of \$5,000 to \$25,000. In contrast, Foundation Source, the largest provider of foundation services in the U.S., serves foundations with minimum assets of \$250,000.

**What is more important to you—control or time?** A private foundation is a distinct, legal entity that files its own taxes, whereas a DAF works more like a charitable investment account held by a sponsoring charity, such as a community foundation or a national grantmaker like NPT. With a foundation, your clients retain complete control over how and where the assets are managed and spent. But managing a foundation, even if the client outsources much of the work, takes more time and oversight. As an officer or trustee of the foundation, your client is ultimately responsible for recordkeeping accuracy, including information reported on the IRS Form 990-PF, a publicly disclosed informational return.

With a DAF, the sponsoring organization is responsible for administrative work, including recordkeeping and tax filing, grant due diligence and sending out grant checks. Your clients' sole responsibility is to recommend grants—anonymously if they so choose—and, with your help, investments for their DAF assets.

## What's Best for My Client: Private Foundations or DAF? (continued)

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**Do you plan to give complex assets?** While your clients can give complex assets like private stock, real estate and tangible assets to either a foundation or a DAF, such gifts generally receive more favorable tax treatment when contributed to a DAF. For instance, donations of closely held stock or real property are valued at the cost basis of the asset for purposes of the charitable deduction when contributed to a foundation, compared with the fair market value when contributed to a DAF. In addition, DAF sponsors like NPT have experience accepting a wide range of assets. Even if your client does not plan to give complex assets, a DAF may prove more advantageous; for gifts of cash, contributions to a DAF are tax deductible up to 60 percent of adjusted gross income, compared to only 30 percent with a foundation.

**Do you want to give to individuals?** If your clients want to support individuals using a DAF, they can support them indirectly by giving to a charity or a charity's relief fund. For instance, many DAF donors have been recommending grants to COVID-19 relief funds established at [community foundations](#) to support local families and individuals. If your clients want to give money directly to individuals facing hardship, they should choose a foundation. With an NPT DAF, clients can give to charitable organizations that are tax-exempt under Internal Revenue Code Section 501(c)(3) and classified as public charities under Section 509(a). This includes places of worship, schools and all public charities in good standing with the IRS.

**Do you want to hire staff, including family members—or simply allow loved ones to participate in giving?** With a foundation, the clients' family members and others may receive reasonable compensation in return for services. DAF donors, on the other hand, can name family members as secondary advisors to recommend grants and investments, but they cannot compensate family members from their DAF account.

If you would like more information on DAFs and foundations, you can review a comparison table [here](#); learn about converting a foundation to a DAF [here](#); or reach out to NPT directly by phone at (888) 878-7900 or by [email at npt@nptrust.org](mailto:npt@nptrust.org).

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