Donor-advised fund and private foundation

A charitable giving comparison

Wealth Management

The donor-advised fund

The donor-advised fund (DAF) is often used by cost-conscious donors or by donors who wish to maximize their current income tax deductions. It is a gifting vehicle created with a parent organization, such as a community foundation or another qualified 501(c)(3) nonprofit organization. The parent organization provides a document, normally free of charge, in exchange for an irrevocable relationship. While you may choose what charity to support, you have few responsibilities beyond donating funds and suggesting how they are used. The parent organization will provide the investment component (with limited or no input from you), as well as the complete administration of the fund. So you enjoy some of the benefits of a private foundation without the paperwork and start-up expenses.

Features and benefits

- The DAF is simple to create and may accept a lower initial contribution. Some organizations will allow a DAF to be created for as little as $5,000.
- The DAF allows you to make additional contributions, which generate additional charitable income tax deductions when the addition is completed.
- The charitable income tax deductions are generated under the terms of a public charity due to the parent organization, so they qualify for maximum charitable deduction.
- Contributions of cash can be deducted up to 60% of adjusted gross income (AGI), appreciated securities (marketable securities are valued at fair market value) are usually limited to 30% of AGI, a five-year carry-forward of any remaining deduction is available.
- You or your designee retain the right to make nonbinding recommendations to the parent organization on the gifting strategy every year, including the timing and amounts of the gifts, as well as the recipients.
- The charitable beneficiary of a DAF cannot be a private foundation.

Donor-advised funds are also available through mutual fund families who have established 501(c)(3) foundations to administer them. Your financial advisor can provide further information about these offerings available through RBC Wealth Management.

The private (family) foundation

The private foundation (PF) has always been an excellent opportunity for creating a family charity to carry your family name and values into the future.

A private foundation can be created in one of two formats: trust form or corporate form. Either form is governed by a customized document created by your legal advisor, which provides you with the freedom and responsibility to make decisions about foundation design, administration and investment management. Private foundations have higher expenses to operate, but they give you total control and can give you the ability to qualify for charitable deductions on an ongoing basis.

Features and benefits

- PFs are normally created with larger gifts.
- Additional contributions can be added to the foundation at any time.
- PFs provide flexibility and control over both distribution to charities as well as administrative and investment service providers.
- There is a minimum 5% annual distribution requirement, with a potential excise tax for failure to meet this requirement or for engaging in certain prohibited transactions.
- There is a 2% excise tax on investment income (1% under certain circumstances).
- The charitable income tax deduction limitations are more restrictive due to the nonpublic charitable status of a PF.
- Contributions of cash are deductible up to 30% of AGI, appreciated securities (marketable securities held long-term are valued at fair market value) are limited 20% of AGI, a five-year carry-forward of any remaining deduction is available.

Which vehicle is right for you?

Donor-advised funds (through a public foundation or from a mutual fund company) and private foundations offer distinct features and benefits. Your RBC Wealth Management financial advisor can help you choose the option that best fits your unique tax management needs.

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