

Charitable giving vehicles—Donor-advised funds and private foundations

Donor-Advised Funds (“DAFs”) and private foundations are two of the most popular charitable giving vehicles. They each offer many benefits and can be a part of a comprehensive charitable giving strategy. The following comparison of the features and benefits of a donor-advised fund and a private foundation may help determine the most appropriate structure for a philanthropic giving program. Individuals should take the time to think about what it is that they would like to do philanthropically and pick the giving vehicle(s) based on what best suits their needs.

When comparing the two structures, it is important to realize that they complement each other. For example, the DAF and a private foundation often work together to give families flexibility around programming, fund anonymous grants, facilitate donations of special assets, serve as a tool to educate the rising generation, and simplify international grantmaking and operational administration.

	Donor-Advised Fund (DAF)	Private foundation
Description	A charitable account funded by donors and held within and administered by the DAF provider. The fund is established with an initial contribution of assets with grant distributions made to charitable organizations thereafter.	A stand-alone charitable giving vehicle that is formed as a trust or corporation by the donors. Can be used in a variety of ways to further the families’ charitable interests.
Administration		
Set-up procedure	Generally has no start-up costs. Can be established immediately with a DAF provider.	Donors must create a corporation or a trust, apply for IRS tax-exempt status and pay filing, legal and accounting expenses. Can be done with an attorney or an outsourced provider.
Ongoing administration and accounting	All financial and administrative services are handled by the DAF provider, generally for an annual asset-based fee.	Financial and administrative services are handled by board, professional advisors or hired staff. Administrative outsourcing services are available.
Minimum initial contribution	Varies widely by DAF provider. Can be as low as \$10,000 or less depending on the DAF provider.	If a donor isn’t looking to make additional contributions, typically \$1 million or greater. In some cases a donor has specific philanthropic plans that make a lower minimum a consideration if the gifts can’t be made through another vehicle.
Beneficiary of charitable split-interest funds ¹	Yes	Yes

¹ For example, a charitable remainder trust or charitable lead trust pooled income fund (although expert legal advice should be sought before naming a private foundation as the beneficiary of an inter vivos charitable lead trust).

	Donor-Advised Fund (DAF)	Private foundation
File tax returns	No	Yes, foundation must file IRS Form 990-PF and comply with other federal and state filing requirements.
Annual distribution requirements	Varies by DAF provider. Some DAFs do not have a minimum while others have a one grant per year requirement.	Typically, at least 5% of the foundation's prior year's average assets must be paid out annually.
Grant management	The DAF provider verifies charitable status of all recipient organizations and processes grants.	Board or staff must verify the charitable status of all recipient organizations. Outsourced administrators or software can also be utilized.
Privacy	Names of individual donors can be kept confidential, and grants can be made anonymously. Often families looking for privacy for certain grants will utilize their DAF for these, even if they use a private foundation for other gifts.	Annual tax returns, which include information regarding board members or trustees, grants, investment fees, staff and salaries, are a matter of public record.

Investments

Mission-related investments ²	Yes, for certain DAFs.	Yes
Sustainable investing	Yes, for certain DAFs.	Yes

Contributions

Ability to contribute and hold privately held stock	Yes, for certain DAFs, subject to time limitations before they must be sold.	Yes
Ability to contribute and hold real estate	Yes, for certain DAFs. Must be held free and clear, with no mortgage on the property. Typically sold within a short time period.	Yes; must be held free and clear with no mortgage on the property. Can be held, but assets subject to minimum distribution requirement calculations unless being utilized for charitable purposes.

Control and decision-making

Grantmaking	Donors may recommend grants typically to 501(c)(3) public charities.	Donors have complete control of all grantmaking, subject to self-dealing rules. Not limited to gifts to public charities.
Investments	Donor recommends investments usually from multiple investment options offered by the DAF.	Unlimited investment options. Donor controls investments, subject to self-dealing rules.
Donor control over board or trustees	No	Yes

² For example, investing in community development notes or bonds linked to philanthropic causes.

	Donor-Advised Fund (DAF)	Private foundation
Legacy/succession	Most DAFs allow you to appoint successor advisors. Ask your DAF provider how many successor generations you may appoint.	Yes, may exist in perpetuity and donors have control over succession.
Donor control over staff	No	Yes, e.g., can appoint family and/or friends as employees or to the Board of Directors and pay their reasonable salaries and/or expenses.
Alternative investments	Yes, for certain DAFs.	Yes
Ability to reimburse travel and other expenses	No	Yes, as it relates to foundation business.
Ability to hire staff	No	Yes
Ability to employ family members	No	Yes
Separately managed accounts	Yes, for certain DAFs.	Yes
Ability to pay for philanthropic consulting	Yes, for certain DAFs.	Yes

Grantmaking choices

Restrictions	Qualified (usually 501(c)(3)) charities only.	Qualified (usually 501(c)(3)) charities, scholarship, award, prize or hardship grants to individuals or organizations other than charities doing work in line with the foundation's charitable purposes.
Program-related investments ³	No	Yes
Grants to individuals ⁴	No	Yes
Scholarship programs	Yes, directed through a recipient organization.	Yes—requires advanced approval from IRS.
Ability to make anonymous gifts	Yes	No
Ability to negotiate naming rights ⁵	Yes	Yes
Ability to make international grants	Yes, for certain DAFs, with additional compliance requirements.	Yes, with additional compliance requirements.
Ability to fulfill a pre-existing pledge	No	Yes

³ For example, purchasing an office building for foundation use, low-interest or interest-free loans.

⁴ For example, emergency, hardship or medical crisis.

⁵ For example, naming opportunities for a building, library, hospital, etc.

	Donor-Advised Fund (DAF)	Private foundation
Taxes⁶		
Federal income tax deductions ⁷ applied to adjusted gross income	<ul style="list-style-type: none"> – Cash contributions: 60% – Publicly traded securities contributions: 30% – Real estate contributions: Fair market value 30%⁸ – Private equity contributions: Fair market value 30%⁸ 	<ul style="list-style-type: none"> – Cash contributions: 30% – Publicly traded securities contributions: 20% – Private equity contributions: Cost basis 20% – Real estate contributions: cost basis 20%⁸
Tax returns	No tax return or reporting required.	Annual state and federal tax returns and reporting required.
Taxes on investments	None	Excise tax of up to 1.39% of net investment income, including net capital gains.

Private foundations and donor-advised funds are often complementary vehicles. Families who have a private foundation will often open a donor-advised fund as well to give responsibilities for their younger family members to learn about investments or grantmaking. Other families who have a specific mission for their foundation will use a DAF to prevent mission drift, or support projects that fall outside the scope, but are still important to the family. It's important for individuals to weigh what assets they are considering contributing as well as the philanthropic goals they have—both in mission and family involvement. A UBS Financial Advisor can help families think through what it is they want to do, and they can help evaluate and identify the best vehicle or combination of vehicles for success.

⁶ All tax information is provided by the IRS. Visit [irs.gov](https://www.irs.gov) for complete information on charitable tax deductions.

⁷ Appreciated publicly traded securities and real estate must be held for more than a year to qualify for long-term capital gain treatment; short-term capital gain property is only deductible to the extent of cost basis. Gifts of long-term appreciated publicly traded securities are deductible at fair market value.

⁸ Typically, donations of real estate to a private foundation are deductible at cost basis or fair market value, whichever is less. Donations of real estate to a DAF are deductible at fair market value.

Important information about brokerage and advisory services.

As a firm providing wealth management services to clients, UBS Financial Services Inc. offers investment advisory services in its capacity as an SEC-registered investment adviser and brokerage services in its capacity as an SEC-registered broker-dealer. Investment advisory services and brokerage services are separate and distinct, differ in material ways and are governed by different laws and separate arrangements. It is important that you understand the ways in which we conduct business, and that you carefully read the agreements and disclosures that we provide to you about the products or services we offer. For more information, please review the client relationship summary provided at ubs.com/relationshipsummary, or ask your UBS Financial Advisor for a copy.

Rules and regulations regarding tax deductions for charitable giving vary at the state level. Tax deductions discussed herein refer specifically to federal taxes. Furthermore, different forms of contributions receive different tax treatment, and this should be considered carefully before choosing the form a contribution will take.

No tax or legal advice.

UBS Financial Services Inc., its affiliates and its employees do not provide tax or legal advice. You should consult with your personal tax and/or legal advisors regarding your particular situation.

This publication is for your information only and is not intended as an offer, or a solicitation of an offer, to buy or sell any product or other specific service. Although all information and opinions expressed in this document were obtained from sources believed to be reliable and in good faith, no representation or warranty, express or implied, is made to its accuracy or completeness. All information and opinions indicated are subject to change without notice. UBS retains the right to change the range of services, the products and the prices at any time without prior notice. Certain services and products are subject to legal provisions and cannot therefore be offered worldwide on an unrestricted basis. This publication is for information purposes only and should not be used as the basis of any investment decisions. UBS Financial Services Inc. expressly disclaims responsibility for any use of these materials other than in accordance with this statement of purpose.

© UBS 2024. The key symbol and UBS are among the registered and unregistered trademarks of UBS. All rights reserved. UBS Financial Services Inc. is a subsidiary of UBS Group AG. Member FINRA/SIPC. Review Code: IS2401675. Expiration: 03/31/2025. 2024-1486519