



Philanthropic Advisor

*A Guide to Charitable Giving
for Professional Advisors*

The Boston Foundation 



Advisor Insights

Donor Advised Fund or Private Foundation? How to Decide?

Donor Advised Funds, which nationally have close to \$40 billion in assets, now outnumber all other charitable giving vehicles. Yet when wealthy people think about giving money to schools, hospitals, museums and other causes they care about, two words usually come to mind: *private foundation*.

This makes sense if you want to hire scientists, set up a lab and find a cure for cancer, says Boston estate attorney Kurt R. Steinkrauss, but it may not be the best choice if your goal is simply to pass funds along to charity. A foundation is absolutely necessary in the first scenario, he says, but a prospective donor can choose between a foundation and a Donor Advised Fund to accomplish the second.

“It costs more money to set up a private foundation, it costs money to operate the foundation, the tax returns are not simple, you have obligations to the state and federal governments, and you have to get your tax-exempt status—and that’s not easy,” says Mr. Steinkrauss, a partner at Mintz Levin and a former member of the Boston Foundation’s Philanthropic Advisors Committee (PAC).

It’s not surprising, then, that the number of U.S. Donor Advised Funds grew 4.2 percent to 177,357 between 2010 and 2011, compared to .6 percent for private foundations, which totaled 68,610, according to the 2012 *Donor Advised Fund Report* produced by the National Philanthropic Trust. Meanwhile, the number of charitable remainder unitrusts, charitable remainder annuity trusts and pooled-income funds dropped.

Assets in Donor Advised Funds swelled from \$31.8 billion in 2010 to \$37.4 billion the next year—a 17.5 percent increase, while those held by

over



5 Questions to Help Decide

1. *What are my goals?*
2. *How much do I wish to give?*
3. *Do I value anonymity?*
4. *Am I ready to begin donating now?*
5. *Do I want the word “foundation” associated with my name?*


private foundations dropped 1.4 percent, from \$527 billion to \$519 billion, according to the report. A 2013 *Chronicle of Philanthropy* survey of 134 funds found that gifts flowing to DAFs were up 46 percent over last year and that the funds are now worth one-third more now than they were before the recession began in 2007.

What should potential donors think about when deciding between a private foundation or a DAF for their charitable giving?

1. What are their goals? If they want to hire employees or enter into complex grant agreements, a foundation is the right choice.
2. How much do they wish to give? For amounts less than \$5 million, “the burden and the cost of administering a private foundation are likely to become disproportionate to the benefits,” says Shari A. Levitan, a partner at Holland & Knight and a past president of the Boston Foundation’s PAC. Donor Advised Funds can be created with \$10,000 or more.
3. Do they value anonymity? Grants made through private foundations are easily discoverable online. “A private foundation is not a good way to have anonymity, even if the grantee organization reports the donation as ‘anonymous,’ ” cautions Levitan.
4. Are they ready to begin donating to specific charities? Foundations must give away 5 percent of their assets each year, but there is no such requirement for DAFs.
5. Would they like the word “foundation” associated with their name, like a Carnegie or a Rockefeller? “You can name your DAF whatever you like – the XYZ Foundation,” Levitan points out. “For those for whom the word ‘foundation’ connotes some level of wealth or philanthropy, that’s very appealing.”

It’s becoming increasingly common for families with small private foundations to terminate them and transfer the assets to Donor Advised Funds.

Binkley C. Shorts, a Boston Foundation board member and chair of its investment committee, says he and his wife Paula decided to step up their philanthropy 20 years ago. “We were debating whether to establish a family foundation,” he recalls, “and were advised that there was a much simpler, less expensive option called the Donor Advised Fund. At the time, I didn’t even know what the Boston Foundation was, but I called them, and it was quite easy to set up our fund.”

A Donor Advised Fund was the right choice for the Shorts family for several reasons, he says, particularly because they could give money or appreciated securities to the fund in one year and then distribute it in other years as they wished. “It’s nice to be able to take the time to research and consider the charities to which we might contribute,” he says, “and the rules governing Donor Advised Funds have allowed us to do this.” 

About the Boston Foundation

The Boston Foundation, Greater Boston’s community foundation, is one of the nation’s oldest and largest community foundations, with net assets of close to \$900 million under management. It offers charitable giving vehicles known as Donor Advised Funds for those who have \$10,000 or more to invest. Gifts to a Donor Advised Fund are generally tax deductible (50 percent of adjusted gross income for cash and 30 percent of AGI for stocks and real property) and no yearly distribution is required. There is a small fee for administration and management.

Please contact Laura T. Godine, Senior Director of Professional Advisor Relations, at laura.godine@tbf.org or 617-338-1218 for more information about Donor Advised Funds.