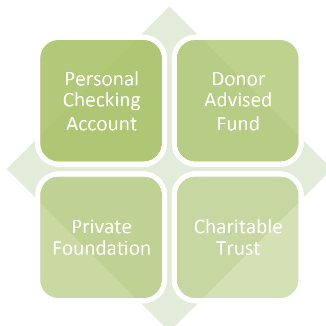
Philanthropy Advisory Group

Selecting Philanthropic Vehicles

Funders generally use four different vehicles for their charitable giving: checking accounts, donor advised funds, private foundations, and charitable trusts.



The checking account, the first method of charitable giving for most any funder, is self-explanatory. The other vehicles, all of which are 501(c)(3)s (i.e., tax-exempt organizations), are as follows:

> **Private Foundation, Corporate Form:** A private foundation is a nonprofit corporation that is funded by one family (individual) and it must distribute of minimum of 5% of its investment income to charitable causes; it may be established to live in perpetuity.
>
> **Private Foundation, Charitable Trust Form:** Also a foundation, the less common choice is the trust form, which holds the same qualities as a private foundation corporation, but its founding document is an agreement that provides for deep control over the selection and loyalty of the trustees.
>
> **Donor Advised Fund (DAF):** A DAF is a separate account that a funder establishes at a public charity (not a private foundation) over which the funder has the ongoing privilege to recommend how the funds are spent. The public charity, however, maintains ultimate control over the investment and expenditure of the funds.

Funders enjoy different benefits from each of these vehicles, and this is why funders sometimes employ more than one vehicle. We recommend that you consider the following about these vehicles as you decide what you would like to establish for your family.

Personal Checking Account

Why Funders Like It	What Funders Find Constraining
✓ Gifts are set off against annual income	✓ Donors do not obtain the tax relief for large gifts while still reserving right to distribute funds over time – with a foundation, trust, or DAF, the donor can gift the money and distribute over time
✓ There is little added in the way of annual accounting fees or taxes	✓ Checking accounts do not provide for estate tax protections in the way that the other vehicles do
✓ Anonymity is easier to maintain with a personal check compared to a foundation that must file publically available tax returns	✓ Checking accounts do not provide built-in opportunities for family engagement the way that foundations and trusts do
✓ Funders can execute contracts with grantees	✓ Unless stipulated in a will, the funder has no capacity to ensure his or her family respects giving priorities after the funder's passing
✓ The funder can decide year-to-year how much he or she wishes to distribute with the foundation's five percent rule or without pressure to maintain DAF minimums	✓ Grant contracts require personal liability
✓ Funders can buy tickets for charitable events and galas without concerns about self-dealing (foundation rules) or rules against private inurement (DAF rules)	✓ A funder cannot make grants abroad or to individuals if they wish to receive tax deductions. A funder also cannot receive tax deductions for payments to staff, consultants, or other professionals that assist the funder—this includes the commission of charitably-minded reports or studies undertaken by organizations that are not 501(c)(3)s.

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Private Foundation, Corporate Form

Why Funders Like It	What Funders Find Constraining
✓ Donations are tax deductible up to 30% of adjusted gross income and up to 20% of adjusted gross income for publically traded securities, with a five-year carry	✓ Foundations require a 5% distribution, although most funders find this requirement easy, as well as ethical, to exceed
✓ Foundations can make binding pledges and issue contracts	✓ Foundation tax forms—990 PFs—are public and show grants and board member names, although there are ways to increase anonymity
✓ Foundations can make grants to standard 501(c)(3)s as well as pursue creative charitable options such as prizes, gifts to individuals, loans, investments in social entrepreneurs, mission-related investing	✓ Foundations require one-time set-up fees, and there are ongoing accounting fees
✓ Foundations can, when complying with simple IRS rules, make grants to non-501(c)(3)s conducting charitable work, both in the U.S. and abroad	✓ Foundations are subject to a 1-2% tax on investment income and realized capital gains
✓ Foundations can pay for staff, consultants, professionals, and reports that count toward the 5% distribution requirement	✓ Board members are subject to IRS rules against self-dealing, i.e., receiving personal benefits for the foundation's assets
✓ The funder can adopt Articles of Incorporation and Bylaws that codify the funder's intent for how the funds should be distributed over time	
✓ The funder can plan for next generation succession	
✓ The funder can run the foundation with minimal time, but when the funder is ready to become more serious, the vehicle is prepared to serve the funder's needs immediately	

Private Foundation, Charitable Trust

Why Funders Like It	What Funders Find Constraining
✓ Has many of the same advantages as a private foundation as corporate form	✓ Has many of the same drawbacks as corporate form
✓ Can be formed more quickly than a corporate entity by contract and without the need for state approval	✓ Future trustees may feel restricted by difficulty in adjusting mission to changing times
✓ Allows for stronger founder control, as trustees may not revise mission without court approval	✓ Attorney generals still oversee trusts and may demand accountings.
✓ Administrative and legal fees may be less	

Donor Advised Fund (DAF)

Why Funders Like It	What Funders Find Constraining
✓ Easy to establish	✓ DAFs charge a carry fee, and these fees can rival and sometimes surpass foundation administration fees
✓ There DAF handles all regulatory and compliance issues, averting need for lawyers and accountants	✓ DAFs can issue contracts on grants, but generally do not provide this service to donors leaving donors without contractual protection on the grant
✓ Can be established with relatively few funds and generally recommended for those with fewer than $1,000,000 in charitable assets	✓ Donors must make independently clear to grantees that reports are still desired, even if not contractually required
✓ Allow for anonymous grants, but also allow for donor naming rights	✓ DAFs do not require consideration of voting rights and grant processes, leaving families to feel excluded from the funder's decisions
✓ Some DAFs are issue-related and administrative fees collected may go to support that cause	✓ DAFs may not facilitate international grantmaking or grants to charitable causes not housed within 501(c)(3)s
✓ Some DAFs have programmatic staff in specific issue areas who provide built-in expertise	✓ The donor is not ultimately in control of the funds once the donation is made, and the donor cannot determine how to invest funds
✓ Online systems allow for easy grant recommendations	
✓ There is no mandatory distribution fee as there is with a foundation	