

CHOOSING YOUR GIVING VEHICLE

Donor-Advised Fund or Private Foundation?

More and more individuals now incorporate charitable giving goals into their overall financial and investment strategy. Two common vehicles people use to support their philanthropic passions are donor-advised funds (DAFs) and private foundations.

But which one is most appropriate for your charitable giving goals? While there is no “one-size-fits-all” answer, the first step lies in understanding the key differences between these options.

Donor-Advised Fund: Turnkey simplicity, low costs

Think of a DAF as a charitable account that enables you to initiate, invest, and distribute charitable gifts. A DAF may be ideal for individuals who want a simple, efficient, and cost-effective platform for managing their charitable giving.

Simple setup

Creating a donor-advised fund is quick and can usually be done online via a public sponsoring charity like T. Rowe Price Charitable.

Recommend grants at your convenience

While assets held in a DAF are legally owned by the sponsoring charity, donors (or their designees) may recommend grants from their DAF to IRS-qualified public charities of their choice.

Invest contributions for potential growth

Sponsoring charities typically offer an array of investment options for donors to choose from. For example, T. Rowe Price Charitable’s investment pools are composed of funds managed by T. Rowe Price. Investment earnings are credited to the DAF, allowing the donor’s contributions to potentially¹ grow tax-free, which can compound resources for future grant-making.

¹ All investment pools are subject to market risk, including possible loss of principal.

Private Foundations: Regulatory complexity, higher costs

Families or corporations typically establish private foundations to support charitable activities. A private foundation may be the ideal vehicle for donors who want greater control over grant-making and investment decisions, and are willing to accept greater complexity and costs to achieve that control.

Creating a 501(c)(3) nonprofit

Establishing a private foundation involves creating a legal nonprofit entity in accordance with state law requirements. The foundation must apply for Section 501(c)(3) exemption from the IRS, a process that can take several months.

Regulatory requirements and filings

Private foundations require a higher degree of transparency and regulatory adherence. For example, they are required to file an annual IRS Form 990-PF disclosing the names of donors and amounts of all donations, as well as a listing of all grants. In addition, they must make annual charitable distributions equal to 5% of their net investment assets.

Comparing Donor-Advised Funds and Private Foundations

FEATURES	DONOR-ADVISED FUNDS	PRIVATE FOUNDATIONS
Charities You Can Support	IRS-qualified public charities	Organizations and individuals, provided the grant supports a charitable purpose
Quick Online Setup	Yes	No
Tax Deduction Limits on Adjusted Gross Income (AGI)	60% of AGI for cash; 30% for appreciated assets ²	30% of AGI for cash; 20% for appreciated assets ³
Tax on Investment Earnings	None	1.39% excise tax on net investment income
Option to Support Charities Anonymously	Yes	No

² Public and nonpublicly traded assets held for over a year are generally deductible at fair market value.

³ Publicly traded assets held for over a year are generally deductible at fair market value, while nonpublicly traded assets are generally deductible only at basis.

Convert a Private Foundation to T. Rowe Price Charitable.

Some individuals find that the costs and complexities of maintaining a private foundation outweigh the benefits of having greater control. This is particularly true for foundations that are winding down or when the original donor is no longer involved with the foundation.

The good news is that a DAF like T. Rowe Price Charitable is ideal for these situations. A private foundation can convert to a DAF with relative ease, and most sponsoring charities can assist a private foundation with the process. Contact T. Rowe Price Charitable to get started.

→ Visit trowepricecharitable.org