



## Tandem Use of Private Foundations and Donor Advised Funds

Hemenway Trust Company, and its affiliate Hemenway & Barnes (H&B), can help you make your charitable giving more effective, especially when you are using a charitable entity such as a donor advised fund or a private foundation. Our seasoned professionals will review your charitable giving and goals, formulate a custom approach for you and your family, ensure proper coordination with your estate planning, and help you ensure that administration runs smoothly over time.

Much has been written comparing the administrative, financial and programmatic criteria of private foundations and donor advised funds ("DAF"). It is often presented as an "either/or" choice. It's important to know that the two can be used in tandem to achieve complementary goals of families and other donors. Below are some examples of how private foundations and DAFs can be used together, based on the extensive experience of our foundation management and philanthropic advisory group.

### Foundation facing payout requirement

Many times a foundation, especially one newly formed, faces a mandatory payout without having fully developed its grant making criteria or philanthropic focus. In other cases, it may have developed a focus, but has not yet chosen grantees; or is waiting for an organization that it wishes to support to receive tax exemption. A private foundation can create a DAF in its own name, make a grant to the DAF to meet its required distribution and recommend grants from the DAF when it is ready to move forward with a grantee.

### Foundation interested in joint family giving or involving the next generation

A private foundation can create a DAF allowing it to pursue activities which might not fit neatly within the foundation's overall giving program, but for which there is significant family interest (for example, gifts to an alma mater, or a campaign at a private school attended by a family member). A DAF also can be created to be used as a "training ground" for the next generation of foundation trustees to learn about charitable giving and the role of a foundation board member. It also can provide a vehicle for involving younger family members outside the umbrella of family giving.

### Foundation interested in supporting a particular issue

Several large, national charitable organizations have in-house DAFs that support the work of the organization and similar charitable causes. A foundation might set up a DAF at an environmental organization, for example, and allocate a portion of its grants to that





particular organization and the remainder to other environmental causes. This may make sense if a foundation has a particularly close connection to the organization and wants to benefit that organization over time. It also works if the focus (in this case, the environment) is not a core part of the foundation's overall giving, since it allows the foundation to benefit from the expertise of the organization hosting the DAF.

### **Donor Interested in Maximizing Charitable Deductions**

If a charitably minded donor is interested in maximizing the deductibility of her contributions in any given year, the donor can make a gift first to her private foundation and then take advantage of higher deduction limits through an additional gift to her donor advised fund. The donor not only takes full advantage of the deductions available to her but also has additional resources from which to recommend charitable gifts.

Now that the Tax Cuts and Jobs Act has raised the limit on deductions for gifts of cash to public charities from 50% of adjusted gross income to 60%, this strategy could be even more desirable.





## Comparison of Donor Advised Fund and Private Foundation

	Donor Advised Fund (DAF)	Private Foundation
Initial contribution	\$2,500 to \$10,000 depending on hosting institution	Can be set up any level but once fully up and running at least \$1 million in assets
Start up costs	None	Legal fees for drafting, IRS application
Annual fees	Asset-based fee typically below one percent of DAF value	Fees can vary. Annual fees for filing tax returns, excise tax on net investment income, investment advice or professional trustee
Annual payout requirement	No, provided larger fund meets minimum requirements	Yes, 5% less certain administrative fees
Income tax considerations	Treated as public charity for tax deduction purposes	Deduction limits lower than a public charity
Decision making authority for grants	No, donors make "recommendations" but final authority rests with the DAF administrators; other restrictions apply	Yes, based on established by-laws or other governing documents
Multi-year pledges	Not to fulfill a formal pledge	Yes
Decision making for investments	No, choose from asset pools; some funds allow for customized investments for assets over \$250k	Yes
Accepts special assets	In some cases, can accept non-publicly traded stock and other illiquid assets; may require prior approval	Yes
Program related investments	No	Yes, under specific IRS guidelines
Scholarship awards	Only if using an intermediary nonprofit	Yes
Run programs	No	Yes
Compensate family members or hire staff	No	Yes, subject to IRS regulations
Administrative or grant making support	Most DAFs offer some level of administrative and grant making support	If desired; often provided by family members or consultants
Anonymity	Not required to report gifts	Must report gifts on tax returns
Successors	Can indicate successor decision makers	Can designate successors



## Contact Us

We want to hear from you whether you are considering making your first charitable gift or are part of a family foundation that has spanned generations. Whatever your situation, we can assist with your philanthropic needs. For more information about the variety of mechanisms available for your charitable giving, please call us at (603) 913-8022.

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