DONOR-ADVISED FUNDS AND PRIVATE FOUNDATIONS:

Achieve Your Philanthropic Goals While Optimizing Tax Benefits

Supporting causes by donating your time and/or money can be a satisfying way to express your values. The organization receives the benefit of your time, skills, and/or monetary gift, and you witness the impact of your contribution both on the organization and in creating a philanthropic legacy for your family to model.

If you are charitably inclined, there are many ways to donate. We recommend that you identify an approximate dollar amount you would like to give periodically or on an annual basis.

In this white paper, we evaluate the various methods and vehicles through which you can make charitable donations, so you can achieve philanthropic goals while optimizing tax benefits.

Methods of Giving

Cash — The quickest and easiest method of giving is to donate cash or write a check. For small donations, this can work very well; however, for larger donations, there are more tax-efficient methods. Based on IRS limits, donations of cash are limited to a 60% deduction against adjusted gross income (AGI).

Appreciated Securities — By gifting appreciated securities, you can avoid the capital gains that would be realized by selling the assets, while also securing a charitable deduction in the current year. Deductions for donations of long-term capital gain property are limited to 30% of AGI. Contributions that cannot be deducted in the current year, because they have exceeded your AGI limits, can be carried forward for up to five years.

Qualified Charitable Distribution (QCD) — For IRA owners over age 70½, a QCD offers an alternative method of donating to charity. A QCD made directly from your IRA to a charitable organization does not qualify for a deduction against AGI as outlined above. However, it does count toward your required minimum distribution (RMD), up to $105K for 2024[1]. To the extent that you do not rely on an RMD for your cash flows, a QCD can fulfill your charitable giving objectives while lowering your income tax liability[2]. A QCD must be made directly to the charitable organization and cannot be made to a donor-advised fund (DAF).

It may be more beneficial to donate a highly appreciated non-cash asset to a DAF rather than a private foundation. A DAF allows you to deduct the fair market value of the appreciated asset, whereas donating the asset to a private foundation would limit the deduction to the asset's cost basis.

[1]$100K, indexed annually for inflation

[2]Your accountant can help you determine whether gifting appreciated securities or using a QCD makes the most sense for you.

Charitable Vehicles

Two highly popular vehicles for charitable giving are DAFs and private foundations. As illustrated in the comparison chart, there are many factors to consider as you assess your primary objectives, which could include ease of administration, minimization of cost, privacy, greater level of control, and maximizing the involvement of family members.

For some donors, choosing between a DAF and a private foundation may not be an either/or decision. Some sophisticated donors may decide to have both and then choose which to use for a given donation depending on the specific circumstances.

COMPARISON CHART: DAFs AND PRIVATE FOUNDATIONS

Features	DAFs	Private Foundations
Establishment, Size, and Minimum Asset Requirements	• Can be opened in 1–2 days • Will need to check with the specific DAF to understand if there are minimum donations required to establish an account, which could range from \$5K – \$25K • Minimums can be higher if you seek active investment management[3] • Balances can be large or small	• Can take several months to establish • Often carry larger balances • Account minimums could be \$2M or more
Cost	• Minimal or no account opening fees • Annual costs vary • Administrative costs are typically 0.6%, and investment fees can range from <0.1% to about 1.0%	• Substantial attorney and administrative fees, which can range from 2.5% – 4% annually
Flexibility and Control	• A donor's contribution to a DAF constitutes an irrevocable gift to a public charity • Following the contribution, you make suggestions to the DAF regarding the charitable recipients of grants. In the majority of cases, your chosen donations are fulfilled. • Donations are limited to eligible 501(c)(3) organizations • Cannot be used to fulfill a pledge • A donation can be made to a DAF during a year in which income is expected to be higher and then paid to charity over time on the donor's schedule	• You have complete control over your donations • A donation can be made to either an individual (subject to certain IRS requirements) following a disaster or personal hardship or to a 501(c)(4), public, or private charity • Can be used to fulfill a pledge if the pledge is made by the foundation
Annual Grant Requirements	• None	• 5% of the foundation's assets must be donated annually

[3]If you would like to work with us to fund a DAF, please contact your First Manhattan Wealth Management team.

COMPARISON CHART: DAFs AND PRIVATE FOUNDATIONS

Features	DAFs	Private Foundations
Privacy	• Donations can be made privately	• Donations are public and must be listed in the annual report
Ongoing Administration and Recordkeeping	• Handled by the DAF	• All responsibility falls on the donor and the foundation • Establish a 501(c)(3) • File state and federal tax returns • File annual reports with the attorney general in the state where the foundation is created • Hold annual board meetings • Hire an attorney • Hire staff when needed • Ongoing expenditure responsibility to confirm that grants are being used by the recipient organization for the intended purposes
Family Engagement	• Family members can be appointed as advisors, which encourages the involvement of the next generation of givers	• Family members can be hired to run the organization, which encourages charitable giving by future generations
Tax Deduction Limits	• 60% of AGI for cash gifts • 30% of AGI for gifts of stock or real property	• 30% of AGI for cash gifts • 20% of AGI for gifts of stock or real property
Other Tax Implications	• Funds grow tax-free • Gifts of appreciated assets do not incur capital gains taxes • No excise tax	• Funds grow tax-free • Gifts of appreciated assets do not incur capital gains taxes • Excise tax is incurred annually on 1.39% of net investment income
Gift Valuation	• FMV (fair market value)	• FMV for publicly traded stock • Cost basis for closely held stock or real property
Investment Management	• Funds can be professionally managed, subject to varying minimums[4]	• Funds can be professionally managed, and donors have full control over the investment management of the funds
Complex Assets	• Could have better infrastructure to handle the contribution of complex assets	• In some cases, might be better equipped to handle certain types of complex assets such as collectibles

Collapsing a Private Foundation into a DAF

In recent years, there has been a gradual shift from private foundations toward DAFs. This certainly does not mean that private foundations are dying entities, as there are still many compelling reasons to run them as highlighted in the comparison chart. However, a primary issue for some is regarding the continuation of the private foundation after the original donors no longer manage it. If the intent is for family members to continue the private foundation and the next generation does not have the time or interest in managing it, a DAF may be a more attractive option.

Other reasons why donors might consider collapsing a private foundation into a DAF include:

1. Reducing the cost of or eliminating responsibility for day-to-day administration.
2. Anonymizing charitable donations.
3. Taking advantage of higher AGI deductions.

In some instances, a private foundation can be split into multiple foundations to enable different family branches to manage the entities. This often occurs when multiple generations of a family are involved in the management of the foundation, as it helps to ease the burden on those who are doing so from the different locations in which they reside. While many states permit a split, the laws surrounding it are specific to the state in which the foundation was created. A court proceeding and/or permission by an attorney general may be required.

First Manhattan – Stay in the Know

There are many ways to support your charitable beliefs while deriving tax benefits. We encourage you to contact your First Manhattan Wealth Management team and your attorney and accountant to ensure that your donation achieves your investment, charitable, and tax goals.

Information in this white paper is current as of November 1, 2024.

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