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WHAT IS THE DIFFERENCE BETWEEN A PRIVATE FOUNDATION AND A DONOR-ADVISED FUND?

When high-net-worth individuals and families incorporate charitable giving into their estate planning, they often consider donor-advised funds and private foundations as vehicles for managing their philanthropy. Both options have unique advantages, and the choice depends on the donor's goals, level of control, and financial considerations.

Donor-advised funds are like charitable savings accounts. Donors contribute to a DAF through a sponsoring organization, receiving an immediate tax deduction, while funds can be invested or disbursed over time. DAFs are easy to set up and manage, but donors only recommend grants, with the sponsoring organization having final approval.

Private foundations, on the other hand, offer complete control. Donors can manage the foundation's investments, grant-making, and governance. Private foundations, which are legal entities, come with higher setup and ongoing costs but provide the flexibility to donate to a broader range of causes, including international organizations and scholarships.

Key differences include the level of control, setup costs, privacy, and the types of assets each can handle. DAFs are more private and simpler to maintain, while private foundations offer more control and flexibility. Both offer tax benefits, though private foundations are subject to an excise tax on investment income and must distribute 5% annually.

Choosing between DAFs and private foundations depends on the donor's needs, but some may find a combination of both to be the best fit for their philanthropic goals.