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# Helping clients choose between DAFs and private foundations

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When it comes to guiding clients with their charitable giving, advisors have several options.

Among the most popular are donor-advised funds (DAFs) and private foundations.

Grants from DAFs totaled $54.77 billion in 2023, according to the National Philanthropic Trust's 2024 Donor-Advised Fund Report. And giving by private foundations added up to $103 billion in 2023, according to the Giving USA 2024 Report.

The right choice for the client can depend on a number of factors, including the amount of money the clients plan to give, how involved the client wants to be, the longevity of their charitable impact and more.

Ben Loughery, founder and CEO of Lock Wealth Management in Atlanta, said DAFs are like charity savings accounts.

"Essentially what you're doing is you put money in, and then you get a tax break right away and then decide which charities to donate and grant that money to later," he said. "They are easy and low-cost, and someone else handles the paperwork."

On the other hand, Loughery said establishing a private foundation is much like starting a charity.

"You have more control, and you can hire staff, and give money in different ways such as creating scholarships or maybe it's something related to research," he said. "They do cost more to run, there are more rules and you have to give away at least 5% of the money each year."

Kevin Estes, founder and financial planner at Scaled Finance in Bellevue, Washington, said a DAF or private foundation "can be magical in the right situation."

"Giving to either can increase donations now instead of spreading them out over multiple years," he said. "This bunching may maximize deductions and avoid lost tax benefits. A bigger tax break can be especially helpful for someone who earns more now than they will later."

During a recent webinar from fintech Broadridge webinar, Reynolds Cafferata, partner at nonprofit, tax and estate planning law firm Rodriguez, Horii, Choi & Cafferata, said clients need guidance as to which option will meet their needs. Still, they don't necessarily have to go only one route or the other.

"Sometimes it's 'and,' not 'or,'" he said.

**Which clients are the best candidates for each?**

Jamie A. Bosse, senior advisor at CGN Advisors in Manhattan, Kansas, said in an interview that a DAF is the "turnkey" option and the private foundation is more hands-on.

Adam Nash, CEO and co-founder of Daffy, told Financial Planning that DAFs are especially helpful for individuals with irregular or "lumpy" incomes, such as freelancers, entrepreneurs or those who receive bonuses or commissions.

"During high-income years, these individuals can make larger contributions to their DAF, securing a tax deduction upfront and then distributing the funds to charities over time, aligning with their financial situation," he said. "For clients who already give regularly or want to give more regularly, a DAF is a great fit. It helps people be more generous, more often."

Samantha Mockford, associate wealth advisor with Citrine Capital in San Francisco, said a DAF offers the donor a large tax deduction in the year they transfer the appreciated stock, while also providing the flexibility to donate to the charity of their choice on a regular basis, which is helpful for a charity's budgeting. However, if a client is primarily or exclusively drawn to a tax deduction but is not excited about any nonprofit work, then a DAF might not be a good fit.

"That appreciated stock has value, and no one can put its value to good use if it's simply sitting in a new account," she said. "Though a powerful tool, a DAF will not change anyone's personality, transforming them into philanthropists."

The best candidate for a DAF is someone who is already donating cash to a charity and holds highly appreciated stock, said Mockford.

Patrick J. Monaghan, IV, partner and director of wealth management at Berman McAleer in Timonium, Maryland, said while his firm does recommend both to clients, it is more common that clients utilize DAFs in their charitable planning.

"Private foundations are expensive to set up and maintain, and there is a significant ongoing administrative burden, including regularly scheduled meetings of the board and mandatory minutes of those meetings," he said. "However, the advantage can be significant for ultrahigh net worth families in instilling philanthropic values intergenerationally."

**Why donor-advised funds are the go-to choice for most clients**

Jason R. Escamilla, CEO of ImpactAdvisor in San Francisco, said a DAF is one of the simplest ways to donate to a charity that may not have experience handling non-cash contributions, such as appreciated stocks, cryptocurrency and other assets.

"You can't beat the simplicity of a DAF, where there is no entrance fee or fixed cost," he said.

Stu Sneen, founder and financial planner at TwoTen Planning in Austin, Texas, said DAFs are easy to set up at major custodians, are low on cost and administrative responsibilities and offer immediate tax deductions and anonymous grants.

"I work closely with mid-career tech professionals who are busy and short on time," he said. "These individuals love the simplicity, privacy and tax advantages of using DAFs."

David Johnston, managing partner at Amwell Ridge Wealth Management in Flemington, New Jersey, said in his experience, clients overwhelmingly prefer DAFs over private foundations due to their lower administrative burden, reduced costs, more favorable tax treatment and greater flexibility in charitable distributions.

Kevin D. Quinn, president at estate and business planning law firm Legacy Counsellors in Easthampton, Massachusetts, said for funds totaling less than $1 million a DAF is attractive because there is no overhead expense and separate reporting and the administration is done by the larger organization.

"However, I can still make grants to whoever I choose," he said. "Because it's a public charity there are also some income tax advantages. Private foundations don't have as great of an amount to give in any one year."

**When a private foundation makes sense — and when it doesn't**

Quinn said for larger funds over $2 million, the private foundation gives much more control and is perpetual.

"Although I may not have as many income tax advantages in any one year I can create and maintain my brand and vision for wealth," he said.

Johnston said he placed that threshold even higher, placing a minimum of at least $10 million in charitable assets.

"Below this threshold, a DAF is typically the more appealing choice," he said.

Sneen said private foundations offer full control over investment management and grants, are often set up to create a legacy of a deceased family member and the ability to issue scholarships or direct giving.

Scooter Thomas, a financial advisor with Savant Wealth Management in Birmingham, Alabama, said the case for private foundations is quite narrow. In most cases, a DAF is a more suitable and efficient option. The case for a private foundation, he said, usually revolves around a single key factor: having an executive.

"In our experience, there is often little justification for the added expense and legal requirements that come with a foundation, making it an uncommon choice for most families," he said.

Thomas said the hired executive of a foundation — regardless of their title — can provide key benefits that might justify its use for a family: managing charitable requests and family involvement and employment.

"A private foundation is a practical option when a family wants to both support and actively involve their children in charitable giving," he said. "Involving children in philanthropy does not require a foundation, but employing them in a paid role funded by the foundation is much easier than doing so through a donor-advised fund."

For particularly wealthy families who are frequently approached with donation requests, a foundation with an executive, or even an executive team, can serve as a buffer, said Thomas.

"This structure removes the burden from the family and allows an unbiased professional to properly evaluate and manage charitable requests," he said.

Edward Jastrem, chief planning officer of Heritage Financial Services in Westwood, Massachusetts, said private foundations typically require greater upfront and ongoing costs and more time commitment to operate and maintain.

"Generally, this reserves private foundations for only large charitable commitments," he said. "That being said, there are instances where that commitment can be seen as favorable if the circumstances are right."

Jastrem said for clients who want to be heavily involved in their charitable giving efforts, perhaps as a post-retirement endeavor, engagement with a private foundation can be an outlet for community involvement, staying in touch with important personal or professional contacts, and finding a meaningful pursuit.

"If the added costs and time are not a detractor, a private foundation could be an outlet that serves a greater purpose than just the transfer of assets to charity," he said.

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