

# CONVERTING A PRIVATE FOUNDATION TO A DONOR ADVISED FUND

*The decision to convert a private foundation into a donor advised fund may be made by looking at what you keep, what you gain and what you lose.*

What You Keep	What You Gain	What You Lose
IDENTITY	FAVORED TAX STATUS	DISTRIBUTION REQUIREMENTS
CHARITABLE INTENT	PROFESSIONAL INVESTMENT MANAGEMENT	EXCISE TAX
GRANTMAKING	SELECTIVE ANONYMITY	TAX RETURNS AND AUDITS
FAMILY LEGACY	GRANTMAKING SUPPORT	ADMINISTRATIVE EXPENSES

## WHAT YOU KEEP

**IDENTITY** A donor advised fund lets your family or the original founding donor retain their identity and stature in the community.

**CHARITABLE INTENT** The same mission and focus of a private foundation can be incorporated into guidelines and objectives of your donor advised fund.

**GRANTMAKING** As fund advisor(s), you recommend grants, which are then vetted and approved by North Texas Community Foundation. We ensure that your fund and the organizations you recommend for support comply with all IRS guidelines and requirements.

**FAMILY LEGACY** A fund established at the Community Foundation allows families to teach their children and subsequent generations the importance and wisdom of philanthropy that can make a positive impact in our community. Successor fund advisors can also be named for the next generation.

## WHAT YOU GAIN

**FAVORED TAX STATUS** As a public charity, the fund will retain favorable tax status compared to a private foundation. Cash gifts to the fund are deductible up to 60% of adjusted gross income vs. 30% for a private foundation. Gifts of appreciated property are deductible up to 30% of adjusted gross income vs. 20% for a private foundation.

**PROFESSIONAL INVESTMENT MANAGEMENT** Fundholders gain professional investment management of their assets. The Community Foundation's investment consultants support asset allocation and manager selection. Oversight is provided by the Foundation's Investment Committee, comprised of experienced investors and investment professionals. Additionally, due to the Community Foundation's economy of scale, investment fees are lower than similarly structured private portfolios. Larger funds may have the option of recommending an outside investment manager with the approval of the Investment Committee.

**SELECTIVE ANONYMITY** While most individuals and families are comfortable with recognition for their generosity, some may desire anonymity. Fund advisors can either choose to be recognized or make grants anonymously.

**GRANTMAKING SUPPORT** The Community Foundation has a professional grantmaking staff with deep knowledge of the organizations that comprise our region's vibrant nonprofit community. Individuals and families with donor advised funds at the Community Foundation have access to this expertise as they seek knowledge about specific organizations and make decisions about their philanthropic interests and grantmaking.

### DONOR ADVISED FUND ADVANTAGES:

- Control over identity
- Higher limits of deductibility
- Professional portfolio management
- Anonymity options
- Grantmaking support
- No distribution requirements
- No excise tax
- No tax returns or audits

## WHAT YOU LOSE

**DISTRIBUTION REQUIREMENTS** IRS regulations require private foundations to distribute at least 5% of the foundation's assets each year. Donor advised funds currently have no such annual requirement. This provides fund advisors with flexibility in their grantmaking.

**EXCISE TAX** Private foundations are required to pay a 1-2% excise tax on investment income. Donor advised funds at the Community Foundation are not subject to such tax.

**TAX RETURNS AND AUDITS** Private foundations are required to file annual Form 990-PF tax returns and, depending upon the size of the private foundation, may need annual audits as well as incur legal expenses. These administrative costs and functions are not required of funds at the Community Foundation.

**ADMINISTRATIVE EXPENSES** Legal, accounting and operational expenses can be substantial for Private Foundations. The administrative fee for our donor advised funds is capped at 1% for funds up to \$1M and steps down as the dollar value of the Fund increases.

For more information, please contact us at 817.877.0702.

# DONOR ADVISED FUND VS PRIVATE FOUNDATION COMPARING THE OPTIONS

	DONOR ADVISED FUND	PRIVATE FOUNDATION
<b>CREATING THE FOUNDATION</b>	Component part of the Community Foundation established by the fund agreement	Separate nonprofit corporation or trust organized as a private foundation
<b>TAX EXEMPT STATUS</b>	Shares the Community Foundation's tax exempt status	Apply to IRS for tax exempt status
<b>START-UP COSTS</b>	No cost to donor	Costs of creating a new corporation can be substantial: legal, accounting and operational start-up
<b>PRIVACY</b>	Grants can be anonymous	All grants are public
<b>CHARITABLE DEDUCTIONS FOR CASH GIFTS</b>	Tax deduction of up to 60% of adjusted gross income	Tax deduction of up to 30% of adjusted gross income
<b>CHARITABLE DEDUCTIONS FOR LONG-TERM APPRECIATED PROPERTY</b>	<p>Tax deduction available for full FMV of marketable securities and other property for those who itemize</p> <p>Tax deduction of up to 30% of adjusted gross income</p>	<p>Tax deduction for FMV of marketable securities only: limited to the lower of cost or FMV for other property</p> <p>Tax deduction of up to 20% of adjusted gross income</p>
<b>DONOR INVOLVEMENT</b>	Donor recommends grants subject to the Community Foundation's approval	Donor retains complete control over investments and grantmaking, subject to self-dealing and excess benefit requirements
<b>PAYOUT REQUIREMENTS</b>	Do not apply	Must pay out minimum 5% annually
<b>ADMINISTRATIVE TASKS</b>	Services provided by the Community Foundation	Services arranged by donor
<b>ANNUAL COSTS</b>	1% of fair-market value of assets, declining as asset size increases	Separate costs for staff support, office space, accounting, grant processing, tax filing, etc.
<b>ANNUAL TAXES</b>	None	Excise tax up to 2% of net investment gain, including net capital gains and income
<b>ANNUAL TAX FILINGS &amp; RETURNS</b>	Not required (reported as part of the Community Foundation's annual reporting)	Must be filed by the private foundation with required reporting schedules
<b>INVESTMENTS</b>	The Community Foundation professionally invests assets with oversight of investment committee	Must research, hire, monitor and evaluate its own investment managers
<b>FIDUCIARY RESPONSIBILITY</b>	The Community Foundation assumes all fiduciary responsibilities	Private foundation board has fiduciary responsibility
<b>DIRECTORS &amp; OFFICERS INSURANCE</b>	Does not apply	Must be purchased separately