

Private Foundations and Donor- Advised Funds



Choosing the right charitable vehicles for you

Choosing the right vehicles to help support your charitable goals can make the difference between simply giving and giving efficiently and effectively. Both private foundations and donor-advised funds allow for:

- Strategic giving over time;
- The involvement of family in charitable decisions;
- The ability to create a lasting legacy.

Understanding private foundations and donor-advised funds



Private Foundations*

A private foundation is a **charitable organization** usually founded by an individual or family with an initial gift and managed by its own trustees or directors. Private foundations maintain or aid charitable, educational, religious, or other activities **servicing the public good**, primarily through **making grants** to other nonprofit organizations.

Advantages

Can pay family members as foundation employees
Retain control and disposition of all assets
Grants are not limited to IRS-qualified charitable organizations (can grant to individuals for travel, study, or other similar purposes provided IRS requirements are met)
Loans, such as Program Related Investments, are allowed, provided IRS requirements are met
Can grant to a donor-advised fund



Donor-Advised Funds

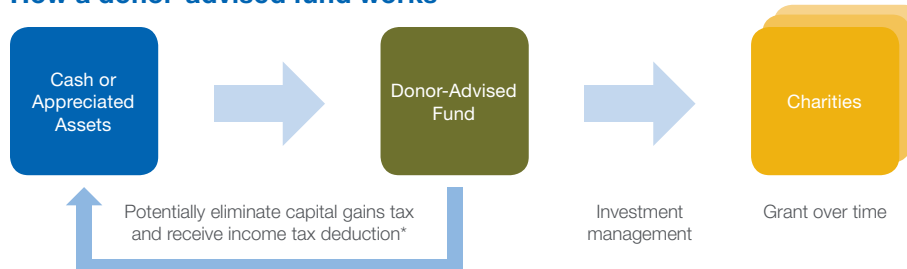
A donor-advised fund or DAF is a charitable giving vehicle that allows donors to:

- **open** an account and fund it with an irrevocable, tax-deductible **contribution** of cash, securities or appreciated non-cash assets;
- **invest** those funds for future potential growth;
- **recommend** grants to qualified 501(c)(3) charities at any time.

Advantages

Sponsoring charity handles all administration including tax filings
Fees are relatively low
Tax deductibility is higher for contributions of cash, appreciated publicly-traded assets and real property and privately held interests
Annual distributions are not required†
Grants can be made anonymously

How a donor-advised fund works



* For the purposes of this brochure, "private foundation" will refer only to private non-operating foundations.

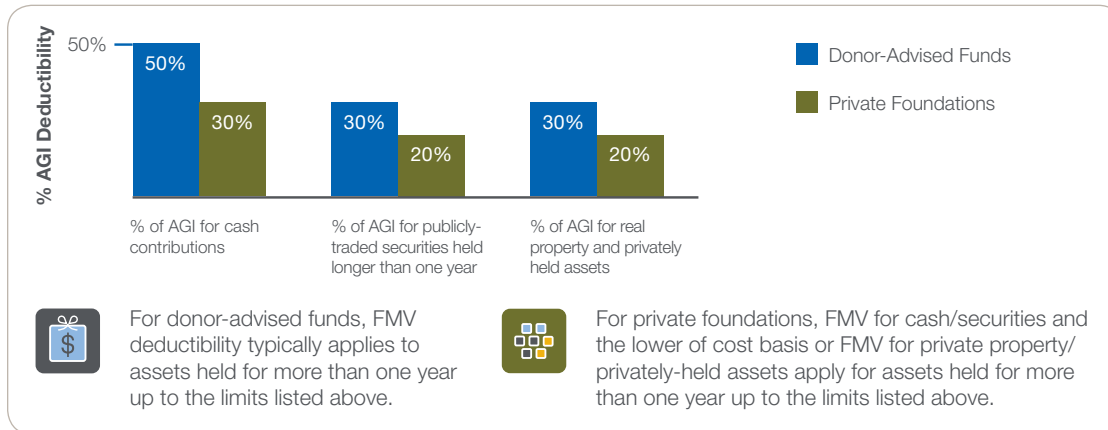
† Donor-advised funds encourage active granting and may have a requirement that granting occur during a specific period.

A donor-advised fund can be used in addition to a private foundation

Leveraging a DAF as a complementary vehicle may help a foundation achieve its mission more effectively and efficiently.

1) Maximizing taxes

There are different tax rules and regulations for DAFs and private foundations.



2) Ongoing administration

A donor-advised fund handles all account administration and record-keeping so the donor can focus on charitable goals.

The DAF is responsible for all administration including:

- record-keeping
- reporting
- compliance with state and federal regulations
- tax filings

3) The ability to give anonymously

Public reporting requirements for private foundations make it impossible to give anonymously. A donor-advised fund offers the option to customize each charitable grant, including the ability to give anonymously.

4) No excise tax

5) Flexibility

Private foundations are required to distribute 5% of their assets each calendar year. For contributions to a donor-advised fund, donors receive a same-year tax deduction and can then take their time in deciding when and where to give.

A donor-advised fund can also be viewed as an alternative to a private foundation

Over time, administrative requirements may become disproportionate to foundation assets, successive generations may wish to pursue their own charitable goals or it may become important to take advantage of higher tax deductions for appreciated assets. For any number of reasons, you may decide to dissolve your private foundation and transition the foundation assets to a donor-advised fund.

Practical considerations for transitioning a private foundation to a donor-advised fund:

- 1) What roles will those involved in the foundation have?
- 2) Who will be designated as account holders/account users?
- 3) Who will be designated as successors to the account?
- 4) Which nonprofits will you grant to through the account? Make sure the current recipients are approved for receipt of grants from a donor-advised fund.
- 5) How will your investment strategy shift from one vehicle to the other?

Schwab Charitable can help you determine whether converting your private foundation to a donor-advised fund account would be beneficial

We also provide guidance throughout the process by:

- Assisting with state-specific paperwork associated with the transfer.
- Facilitating the transfer of assets to a donor-advised fund account.



Questions?

Visit www.schwabcharitable.org

Call Schwab Charitable at **800-746-6216**

Contact your advisor

A donor's ability to claim itemized deductions is subject to a variety of limitations depending on the donor's specific tax situation. Consult your tax advisor for more information.

Schwab Charitable does not provide specific individualized legal or tax advice. Please consult a qualified legal or tax advisor where such advice is necessary or appropriate.

Schwab Charitable is the name used for the combined programs and services of Schwab Charitable Fund, an independent nonprofit organization. The Schwab Charitable Fund has entered into service agreements with certain affiliates of The Charles Schwab Corporation.

Schwab Charitable Fund is recognized as a tax-exempt public charity as described in Sections 501(c)(3), 509(a)(1), and 170(b)(1)(A)(vi) of the Internal Revenue Code. Contributions made to Schwab Charitable Fund are considered an irrevocable gift and are not refundable. Please be aware that Schwab Charitable has exclusive legal control over the assets you have contributed. Although every effort has been made to ensure that the information provided is correct, Schwab Charitable cannot guarantee its accuracy. This information is not provided to the IRS.