

# Donor Advised Funds and Private Foundations



## DONOR ADVISED FUNDS

A **Donor Advised Fund (DAF)** is an account or fund established within an existing public foundation that accepts donations from different sources into a general or specific fund comprised of DAFs from multiple donors. The administration, investment and maintenance of the various DAFs from differing donors are the responsibility of the public foundation, for which it charges an administration fee. The donor receives an immediate charitable donation tax receipt and his/her donation can begin to grow tax-free. The donor can recommend grants from his/her DAF to their preferred organizations and causes over time.



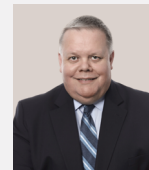
## PRIVATE FOUNDATIONS

A **Private Foundation** is a corporation incorporated or a charitable trust established and subsequently registered with the Canada Revenue Agency (CRA) as a registered charity. A private foundation is commonly a personal or family choice and is controlled and managed by the same person or family. While establishing a private foundation takes longer and is more expensive, it may offer greater flexibility in the planning and execution of charitable giving.

Understanding the differences between these two vehicles is a good starting point to begin philanthropic planning. Each giving option can be an effective and personal method for enabling donors to make a lasting impact on a charitable cause that is important to them, while also achieving their philanthropic goals.



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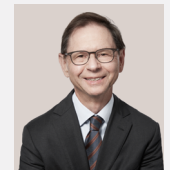
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# Donor Advised Funds and Private Foundations

## DONOR ADVISED FUNDS



### Advantages

- May have lower set-up costs depending on scope of control retained by Donor and terms of gift agreement establishing the DAF
- Flexibility in determining ongoing work/involvement – very little ongoing work required if Donor chooses and easily managed after death
- Bookkeeping, administrative services and investment expertise...economies of scale
- No direct responsibility to the CRA/government and no responsibility for filings
- Public foundation ensures continuance of the DAF – no need to recruit qualified individuals to oversee DAF for no compensation
- Easier to maintain anonymity

### Disadvantages

- Less control – subject to legally binding restrictions imposed at the time the donation is made, the public foundation has ultimate authority over the distribution of funds. The public foundation also makes investment decisions BUT this is often negotiable
- Annual admin costs may be higher, depending on the value of the donation to the DAF

## PRIVATE FOUNDATIONS



### Advantages

- Donor is in a stronger position to control or at minimum influence future disposition of gifted assets and more flexibility
- Donor can be more involved in the operations of the charity during lifetime
- Control over investments e.g. governance documents can limit investments
- Personal satisfaction in operating a charity
- Succession of philanthropic goals of Donor through their family
- Facilitates legacy planning of the Donor
- Provides tax credit with deferral of disbursement decisions, subject to certain limits

### Disadvantages

- Higher set-up costs; ongoing administrative costs variable
- More work to set-up and administer
- Various *Income Tax Act* rules may restrict investments/activities (e.g. excess business holdings rules, loan back rules, non-qualifying securities)
- Full responsibility to the Canada Revenue Agency (CRA) and government for filings and other administrative requirements; disclosure to the Office of the Public Guardian and Trustee under the *Charities Accounting Act*
- Necessary to engage trustees/directors who are fiduciaries and cannot be compensated
- Potentially less anonymity

### Advantages common to both DAF and Private Foundations:

- Public recognition, if desired (e.g. through name of private foundation or through creating a DAF bearing the Donor's name)
- Flexibility re: term (e.g. possible to create a fund intended to last in perpetuity or for a certain number of years following death with a spend-down mandate)
- Influence over distributions. Although a private foundation may offer a greater degree of control, the wishes of the Donor to a DAF is generally respected. Control through a DAF can also be obtained by imposing binding restrictions when the donation is made
- Additional donations can be made to the private foundation/DAF over time
- Charitable tax credits available for initial donation and subsequent donations to the private foundation/DAF, at the time those donations are made