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Q:

What is the best way to understand the pros and cons of family foundations and donor-advised funds?



BY JENNIFER KIM

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► **Whatever your personal reason for engaging in philanthropy, there are two undeniable facts:** Giving can be an incredibly fulfilling experience that, when carefully planned and structured, offers meaningful financial benefits.

A planned giving program also affords more control over what will be given, when it will be given and how it should be used. But which structure is the best fit for your personal circumstances and objectives?

The simplicity of donor-advised funds

Donor-advised funds (DAFs) allow you and your family to make a charitable contribution and receive an immediate tax deduction for the gift. In addition, you can take your time making recommendations for distributing the funds to the qualified

nonprofit organizations you select (often with the ability to remain anonymous if you so desire).

Assets like appreciated stock that you may not be able to gift directly can be easily given through a donor-advised fund, since such assets are liquidated and converted to cash when you donate them.

DAFs provide a tax deduction of up to 50 percent of adjusted gross income (AGI) for cash contributions and 30 percent for appreciated assets. They eliminate the administrative burden by providing you with consolidated record keeping and tax reporting. And their simplicity makes them terrific vehicles for introducing philanthropy to your children and involving them in the grant-making process.

**More grant-making control
with a private foundation**

Unlike DAFs, private foundations afford you complete control over grant-making and investment management. But because they are formal legal entities, foundations must be overseen by directors and trustees (the “board”) responsible for determining how foundation assets will be invested, where and when grants will be distributed and how large those grants should be.

If creating a recognizable legacy for your family name is important to you, the lifespan of a private foundation can continue on for generations. However, the costs to maintain a foundation can be considerable, and the administrative complexity can be daunting. Foundations are also required to distribute a minimum of 5 percent of assets annually and file separate federal and, in some instances, state income tax returns.

Which is right for you?

The decision between a DAF and a private foundation can be a difficult one, as each strategy comes with its own benefits and drawbacks. Predominantly, the decision comes down to one of control. With a DAF, you choose from a set of pre-existing investment strategies, whereas with a private foundation you’re empowered to make all investment decisions.

If you’re willing to relinquish some control over your gifting and investments, you can gain some key advantages with DAFs. Among them is favorable tax treatment, greatly reduced administrative responsibilities, lower establishment and ongoing costs, no minimum annual distribution requirements and donor anonymity.

Giving can unite your family across the years, geographic locations and life circumstances. No matter how old your children are, integrating philanthropy into your family life can be an excellent way to pass on healthy attitudes about money and helping others. Finding the optimal structure for your charitable giving, however, is an important step, and one that your advisor is well equipped to assist you with. ●

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FEATURE	DAF	FOUNDATION
Contribution deductibility	Up to 50% of AGI for cash and up to 30% of AGI for property	Up to 30% of AGI for cash and up to 20% of AGI for property
Annual distribution requirements	None	5% of total assets
Setup costs	None	Legal and filing fees
Investment control	Limited to preset strategies	Total control
Grant privacy	Anonymous (if desired)	Form 990-PF must be filed
Ability to employ family members	No	Yes, if salary is commensurate with position
Excise taxes	None	Up to 2% of assets

ABOUT JENNIFER KIM



Jennifer Kim, MS, CLU, CFP®, ChFC, CMFC is a senior partner with Signature Estate & Investment Advisors, LLC (SEIA). Mrs. Kim received her BA in economics from the University of California, Los Angeles (UCLA), in 1992. She also completed her master’s degree in professional financial planning through the College for Financial Planning. Mrs. Kim has been in the securities and insurance business since 1993. Currently, she is a registered representative of Signator Investors, Inc., Century

City branch. She is also a licensed insurance agent of John Hancock Life Insurance Company (California Insurance License no. OB11807) and a licensed independent insurance broker with Signature Comprehensive Insurance Services, LLC (SCIS).

EXPERTISE

Financial Services Experience

26 YEARS

Education

UCLA, Bachelor of Arts, economics

Assets Under Management

\$8.3B

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