



PERMIAN BASIN AREA FOUNDATION

Donor Advised Fund and Private Foundation A Comparison

Many people who are financially positioned to provide sustaining support for charitable causes consider private foundations for achieving this objective. Private foundations allow donor control over distributions and board member selection, but are highly regulated by the government. Establishing a private foundation involves an extensive application process with the IRS. Ongoing requirements include the burdens of administration, excise taxes, and a mandatory annual payout of assets.

A simple alternative to establishing a private foundation is creating a donor-advised fund with Permian Basin Area Foundation. A donor-advised fund is created by a simple written agreement with assets conveyed by a donor who wishes to influence which charitable causes are supported by the fund. Permian Basin Area Foundation is a 501 (c) 3 organization, and contributions to a donor-advised fund can be made at any time and are tax-deductible to the fullest extent of the law.

The Foundation can also accommodate the conversion of an existing private foundation to a permanent donor-advised fund.

The following table compares donor-advised funds with private foundations. For additional information, we invite you or your professional advisor to contact Guy McCrary at the Foundation, 432.617.3213.

This resource has been prepared by the Foundation to serve for general information and discussion. It is not intended to serve as legal or tax advice and readers are encouraged to seek professional counsel specific to their circumstances.

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	Donor Advised Fund	Private Foundation
Creation	Immediate, simple fund agreement with Permian Basin Area Foundation (PBAF).	Can take months to form and file with the state and IRS as a new corporate entity.
Tax Status	Automatically exempt as a charitable fund of PBAF.	Must apply for private foundation tax-exempt status from IRS.
Donor Control	Donor may participate in PBAF's competitive grantmaking and/or make advisory grant recommendations with final approval of PBAF.	Donor retains control over investments and grant making, subject to IRS regulations.
Start up Costs/Recommended Initial Assets	No start up costs. Recommended minimum assets of \$100,000 before making grants.	Legal and filing fees; more assets required to justify ongoing overhead expenses.
IRS Reports/Privacy	Included in PBAF's annual reporting; donor may remain anonymous.	Returns must be filed with IRS and required supporting schedules and are available to the public on the internet.
Liability Insurance	Provided by PBAF's liability and office insurance policies.	Must be obtained through separate insurance carrier.
Investments	Assets are professionally invested as part of PBAF services.	Must establish independent investment plan or hire management services. Certain investments may be prohibited.
Governance	Board of Governors of PBAF fulfills fiduciary duties.	Private foundation board has responsibilities as fiduciary.
Conflict of Interest	Donors and advisors are prohibited from receiving benefits from grants made from their advised funds.	Strict regulations prohibit most transactions between a private foundation and its donors, including related persons or corporations.
Succession	Successive generations may participate in grant recommendations if provided in fund agreement.	Plans for succession must be described in organizing documents.
Distribution and Tax Deductions		
Annual Grant Distribution	Currently, no minimum required.	Must pay out for charitable purposes at least 5% of assets value regardless of annual income.
Deduction limits for cash gifts and appreciated property	Current-year tax deduction up to 60% of adjusted gross income (AGI) for cash gifts. Fair-market value deduction for most assets up to 30% of AGI for stock or real property.	Current-year tax deduction limited to 30% of AGI. Fair-market value deduction only for gift of publicly-traded securities up to 20% of AGI for stock or real property.
Administration and Management Fees		
Administration	All administrative services provided by PBAF under simple fee structure.	Must establish, obtain, or hire these services: accounting, auditing, legal, administration, and grant management; including annual IRS filings.
Annual Costs	Minimal; PBAF fee is .96% annualized of average fund balance.	Administrative costs usually exceed 1% of the value of the foundation's assets each year.
Excise Taxes	None	Annual excise tax of up to 2% of net investment income, including net capital gains. Other excise taxes may apply under certain circumstances.



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