

Donor Advised Fund and Private Foundation

A Charitable Giving Comparison

Charitable giving can be a powerful financial tool for both estate planning and tax management. If you would like to create a charitable vehicle for tax purposes, two options will help you make charitable gifts in an organized fashion, while having a secure level of due diligence: a Private Family Foundation or a Donor Advised Fund. Both vehicles can be designed to help meet your tax goals and carry the family name into the future. Compare the advantages they offer.

THE DONOR ADVISED FUND

The donor advised fund (DAF) is often used by cost conscious donors or by donors who wish to maximize their current income tax deductions. It is a gifting vehicle created with a “parent organization” such as a community foundation or any other qualified 501(c)(3) non-profit organization. The parent organization provides a document, normally free of charge, in exchange for an irrevocable relationship. While you may choose what charity to support, you have few responsibilities beyond donating funds and suggesting how they are used. The parent organization will provide the investment component (with limited or no input from you), as well as the complete administration of the fund. So you enjoy some of the benefits of a private foundation (see below) without the paperwork and start up expenses.

Features and Benefits

- The DAF is simple to create and may accept a “lower” initial contribution. Some organizations will allow a DAF to be created for as little as \$10,000.00.

- The DAF allows you to make additional contributions, which generate additional charitable income tax deductions when the addition is completed.
- The charitable income tax deductions are generated under the terms of a public charity due to the parent organization, so they qualify for maximum charitable deduction.
- Contributions of cash and marketable securities are valued at fair market value and can be deducted up to 50% of adjusted gross income, with a five-year carry forward of any balance.
- You and/or your designee retain the right to make non-binding recommendations to the parent organization on the gifting strategy every year, meaning the timing and amounts of the gifts, as well as the recipients.
- The charitable beneficiary of a DAF cannot be a private foundation.

Donor Advised Funds are also available through several mutual fund families who have established 501(c)(3) foundations to administer them. Your Financial Advisor can provide further information about these offerings available through RBC Wealth Management.

THE PRIVATE (FAMILY) FOUNDATION

The private foundation (PF) has always been an excellent opportunity for creating a “family charity” to carry your family name and values into the future. A private foundation can be created in one of two formats: trust form or corporate form. Either form is governed by a customized document created



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Donor Advised Fund and Private Foundation, continued

by your legal advisor which provides you with the freedom and responsibility to make decisions about foundation design, administration and investment management. Private foundations have higher expenses to operate, but they give you total control and can give you the ability to qualify for maximum charitable deduction on an ongoing basis.

Features and Benefits

- PFs are normally created with larger gifts.
- Additional contributions can be added to the foundation at any time.
- PFs offer long-term family involvement and succession planning for future family member participation.
- PFs provide flexibility and control over distributions to charities.
- PFs provide flexibility and control over administrative and investment service providers.
- There is a minimum 5% annual distribution requirement, with a potential excise tax for failure to meet this requirement or for engaging in certain prohibited transactions.
- There is a 2% excise tax on investment income (1% under certain circumstances).
- The charitable income tax deduction limitations are more restrictive due to the nonpublic charitable status of a PF.
- Contributions of cash and marketable securities are valued at fair market value and deductible up to 30% of adjusted gross income with a five-year carry forward of any balance.

WHICH VEHICLE IS RIGHT FOR YOU?

Donor advised funds (through a public foundation or from a mutual fund company) and private foundations offer distinct features and benefits. Your RBC Wealth Management® Financial Advisor can help you choose the option that best fits your unique tax management needs.

As a client of RBC Wealth Management, you are able to take full advantage of our associations with RBC Trust Company (Delaware) Limited and Comerica Bank & Trust, N.A., two well established trustees in the industry. Additional charitable services for planning, implementing and administering your charitable plans are available through our alliances with these professional trustees. Our program combines the strengths of great organizations, providing you access to quality trust administration in addition to the professional, personalized investment services you've come to expect from your Financial Advisor. Call him or her today to discuss how these charitable giving vehicles can help you lower your tax bite while supporting a worthy cause that is important to you.

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