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THE PRIVATE BRIEF · NONPROFIT GOVERNANCE

Private Foundation or Donor-Advised Fund: The Honest Comparison

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IN BRIEF

- A donor-advised fund is an account at a public charity, which legally controls what you give and acts on your recommendations; a private foundation is a charity of its own that owns its assets and acts when its board, usually your family, votes.
- The federal deduction limits favor the fund: cash given to a donor-advised fund can be deducted up to 60 percent of adjusted gross income, against 30 percent for a typical family foundation, and appreciated property given to a foundation faces tighter limits still. For tax years beginning in 2026, a new floor also trims every itemizer's charitable deduction.
- A foundation carries yearly obligations the fund does not: a minimum payout, a 1.39 percent excise tax on net investment income, a public Form 990-PF and New York registration. It earns its keep where control, succession or the family's name is the point.

The email from your accountant arrives a few months after the sale closes: before year end, decide where the charitable money goes. A friend says a donor-advised fund takes an afternoon to open. Another says a family foundation is the only way to do it properly. Both are right about something.

A private foundation buys control and permanence. A donor-advised fund buys simplicity. The right answer depends on which of those your family actually wants. Here is what separates them, including two federal rules that are new for tax years beginning in 2026.

Who owns the money after you give it

The IRS describes a donor-advised fund as “a separately identified fund or account that is maintained and operated by a section 501(c)(3) organization, which is called a sponsoring organization.” Put simply, a public charity (the sponsor) holds an account with your name on it. Once you contribute, the IRS says, the sponsor “has legal control over it.” What you keep are advisory privileges: you recommend grants, and you recommend how the account is invested.

Sponsors generally follow their donors, and it works well for many families. But a recommendation is still a recommendation. The sponsor’s policies decide which grantees qualify and how fast a grant moves.

A private foundation is the opposite arrangement: a charity of its own (the foundations this firm forms are New York not-for-profit corporations) that owns its assets and is run by a board your family appoints. A grant happens because the board voted for it. The tax law starts from this status, too: the IRS says every 501(c)(3) charity “is a private foundation unless it falls into one of the categories specifically excluded” from the definition, and a charity funded by one family is the classic case that stays inside it.

Who sits at the table after you

A foundation is built to outlast the people who fund it. The bylaws can say how successor directors are chosen, so board seats pass to the next generation on terms the family sets, and the family’s name stays on the door.

Whether a donor-advised fund account can pass to your children, and for how many generations, is a question about the sponsor's program rather than the law. If governance across generations is the point of the exercise, read the sponsor's succession policy before you open the account.

The same is true of the investments. A foundation's board chooses how its portfolio is invested and who manages it, subject to the duties every charity's board owes the organization, so the advisor the family already trusts can often stay in place. With a donor-advised fund, the sponsor keeps legal control and your role is advisory.

But a recommendation is still a recommendation.

The deduction limits favor the fund

The federal limits are set as a percentage of your adjusted gross income, or AGI (your total income less certain adjustments, before itemized deductions). A donor-advised fund's sponsor is a public charity, which IRS Publication 526 calls a "50% limit organization," and the publication caps the deduction for cash given to those organizations at 60 percent of AGI. The tax code now sets that 60 percent limit with no end date.

A typical family foundation is what the tax law calls a private non-operating foundation: one that mainly makes grants rather than running charitable programs itself. For gifts to it, cash is generally limited to 30 percent of AGI. Appreciated property that would produce a long-term capital gain if you sold it (the IRS calls it capital gain property) is limited to 20 percent. The same property given to a donor-advised fund is generally limited to 30 percent.

A second, quieter difference: for most property given to a non-operating foundation, the deduction is generally reduced to what you paid for it (your basis) instead of what it is worth today. The important exception is qualified appreciated stock: stock with market quotations readily available on an established securities market, deductible at full value, but only to the extent you and your family have not contributed more than 10 percent of the value of all the company's outstanding stock. Listed shares usually fit. Shares in a family company that does not trade publicly, and real estate, do not.

What changed for tax years beginning in 2026

IRS Publication 505 (2026) describes two new rules, and both matter for year-end planning now.

The first is a floor. In the IRS's words, "Beginning in 2026, if you itemize, you can only deduct charitable contributions that are more than 0.5% of your adjusted gross income." On $2,000,000 of AGI, the first $10,000 of the year's giving produces no deduction for 2026. The floor applies whichever vehicle you choose, so it does not change the comparison, but it changes the arithmetic, and it sits on top of the overall limit on itemized deductions.

The second is a deduction for people who do not itemize: up to $1,000 of cash gifts, or $2,000 on a joint return. It will not help with either vehicle here. The Code limits it to cash given to public charities of the kind listed in section 170(b)(1)(A), and it excludes by name any gift "for the establishment of a new, or maintenance of an existing, donor advised fund." A typical family foundation is not on that list either.

These rules turn on your tax year, your income and the rest of your return. Which year a gift lands in is a question for your own accountant before you commit.

A worked example

An illustration, not a client: a donor with $2,000,000 of AGI in 2026 who wants to commit $900,000 in cash this year.

- **To a donor-advised fund.** The 60 percent limit is $1,200,000, so the full $900,000 sits within that limit for the year.
- **To a family foundation.** The 30 percent limit is $600,000. The other $300,000 is not lost: Publication 526 lets you carry the excess forward and deduct it over the next five years, subject to the same limits in those years.

The new floor applies in both cases, and exactly how it interacts with the limits and any carryover is your accountant's calculation. The shape of the answer holds. Same gift, same year, different timing. For a donor whose income is concentrated in one sale, that difference is real money.

What a foundation asks of you every year

A private foundation must pay out. The IRS explains that private foundations “are required to spend annually a certain amount of money or property for charitable purposes.” The amount starts from a minimum investment return of 5 percent of the value of the foundation’s investment assets (the assets not used directly in its charitable work), less any debt incurred to buy them, with certain adjustments. Miss it, and the foundation owes a 30 percent excise tax on the shortfall.

That payout rule is written for private foundations. Your donor-advised fund account sits inside a public charity, and the rule does not reach it, though a sponsor may set activity rules of its own.

A foundation also pays an excise tax on its investment income: the IRS states that “for tax years beginning after Dec. 20, 2019, the excise tax is 1.39% of net investment income.” It files Form 990-PF every year, a return it must make available for public inspection. In New York the foundation also registers with the Attorney General’s Charities Bureau and reports to it every year. Add accounting and administration, and the carrying cost is real. A donor-advised fund asks none of that of you: the sponsor charges its own fees, and there is no separate charity, return or registration to maintain in your name.

Same gift, same year, different timing.

When the fund simply wins, and when the foundation earns its keep

The fund is usually the better answer when:

- the giving is modest next to the cost of running a charity of your own
- you would rather give quietly than see your grants on a public return
- you want to give shares in a family company or real estate and deduct their full value (if the sponsor will accept them)

- nobody in the family wants to sit on a board or keep minutes
- you want to start giving this quarter, not after a formation and an IRS application

The foundation earns its keep where control, succession or the family's name is the point: a board that decides, seats that pass to the next generation, and an institution that can hire staff and run programs of its own. The legal work of forming one is a single defined-scope engagement, and the firm publishes its scope and fee on its Foundation Launch page.

Where to start

Write one paragraph about what you want your giving to look like in twenty years: who decides, whose name is on it, whether your children are at the table. Send it, with your expected income for this year, to your accountant and ask: which vehicle, and which tax year? If the paragraph is mostly about control and family, a foundation deserves a serious look. If it is mostly about getting money to good causes with the least friction, open the fund.

This is general information about private foundations and donor-advised funds, not legal or tax advice about your situation. Deduction results depend on your own facts and tax year, and the IRS, not any advisor, decides how the rules apply to your return.

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