The Best of Both Worlds: Using Private Foundations and Donor Advised Funds

This guide is for professional advisors whose clients want to formalize their charitable giving through a giving vehicle such as a Donor Advised Fund (DAF) or a private foundation. Many types of giving vehicles are available to donors; DAFs and private foundations are two of the most popular. Other giving vehicles include various kinds of charitable trusts; types of fund accounts other than DAFs (such as designated funds and unrestricted funds); and other 501(c)(3) entities.

Experienced professional advisors know that helping clients find the best giving vehicle available for them creates a win-win situation. The clients will be happier with a vehicle that is a good fit, will gift more assets, and will recommend that advisor to friends. In short, clients will be more fulfilled, more generous, more effective, and more influential on the causes they care about. In turn, the professional advisor builds a stronger reputation as a trusted ally.

In some situations, a private foundation is the best vehicle to accomplish a client's goals; other cases call for use of a DAF, other type of fund, or another giving vehicle altogether. In many situations, however, clients use oth private foundations and DAFs to accomplish their goals effectively.

exponent philanthropy

I. Understanding Donor Advised Funds and Private Foundations

DAFs and private foundations both offer tax deductions to individual donors for current donations, with the understanding that the donated funds will be used to make future grants to public charities. Each is, in its own way, an excellent vehicle for philanthropic giving. But private foundations and DAFs differ structurally and operationally.

A. THE UNIVERSE OF DONOR ADVISED FUNDS

DAFs are funds held within and managed by another organization—namely, a public charity. Although any type of public charity can legally sponsor DAFs, most are not set up to administer them.

Over time, four types of sponsoring organizations have evolved that offer DAFs to donors:

- National sponsoring organizations, which are usually established by investment firms (such as the Fidelity® Charitable Gift Fund, the Schwab® Fund for Charitable Giving, and the Vanguard® Charitable Endowment Program, among others)
- Community foundations, which typically limit their giving to the local region or community
- Public foundations, which give nationally and sometimes internationally, but only to a particular issue or cause
- Other public charities that set up funds within their institutions to support their own charitable mission, such as certain universities and hospitals

The four types of sponsoring organizations vary in the types of funds they offer. Because their charitable focus is broad and DAFs serve their clients best, national sponsors tend to offer only DAFs. Community and public foundations typically offer a wider range of funds, including DAFs, designated funds, unrestricted funds, field-of-interest funds, agency endowment funds, and scholarship funds.

B. THE UNIVERSE OF PRIVATE FOUNDATIONS

In contrast to a DAF, a private foundation is a freestanding entity, usually a corporation, and must apply for and obtain its own tax exempt status. As a result, a private foundation comes with its own substantial responsibilities and requirements, as well as certain freedoms and the potential for greater control by the donor. A private foundation is “private” because it receives its funding from one or very few donors (usually an individual, family, or business) rather than from a broad segment of the public. A private foundation may receive its revenue from an endowment or, if it is a “pass-through” foundation, from periodic gifts of assets.

Most private foundations are non-operating (i.e., their primary programs are grantmaking programs, although they may occasionally choose to operate programs). In contrast, private operating foundations primarily run charitable programs, although they are not prohibited from making grants. Additionally, private foundations can be informally divided into three categories—family, independent, or corporate—referring to the funding source and governance. Each category has its own cultural and practical differences.

Regardless of type, all private foundations are responsible for their own filings to government agencies, the most notable of which is the Form 990-PF.

In addition, private foundations are subject to more stringent tax laws and regulations than public charities (including those that sponsor DAFs). These additional rules and regulations are known collectively as the “private foundation rules.” Professional advisors should be familiar with the private foundations rules because they affect how a private foundation is managed.

In brief, these rules address:

- Net investment tax—Private foundations must pay a 2% excise tax on net investment income each year, which can be reduced to 1% under certain circumstances.
- Self-dealing—Transactions between the foundation and certain insiders, known as disqualified persons, are prohibited. Disqualified persons who enter into self-dealing transactions (and sometimes foundation managers too) are subject to excise taxes until the self-dealing transactions are reversed.
- Mandatory distributions—Grantmaking foundations are subject to excise taxes for failure to make annual qualifying distributions of at least 5% of the value of the preceding year’s average investment assets. Qualifying distributions include amounts paid out annually in grants plus administrative costs.
- Excess business holdings—Rules restrict the percentage of a for-profit business that a private foundation (and its insiders) may own and subject the foundation to excises taxes on any excess holdings. DAFs are also subject to excess business holdings rules under the Pension Protection Act of 2006.

- Jeopardizing investments—Private foundation board members may not put the private foundation's assets at risk.

- Taxable expenditures—Rules prohibit influencing elections, lobbying, making certain grants to individuals without prior IRS approval, making non-charitable grants, or making grants to organizations that are not public charities or documented as charitable under very specific expenditure responsibility or equivalency rules. Private foundations are subject to excise taxes on taxable expenditures and must seek to reverse these transactions.

- Lobbying—Earmarking grants to public charities for lobbying and direct lobbying (except in self-defense) by private foundations is prohibited.

C. DIFFERENCES BETWEEN DONOR ADVISED FUNDS AND PRIVATE FOUNDATIONS

The key differences between DAFs and private foundations are as follows:

- Starting up—Sponsoring organizations have the capacity to set up DAFs quickly and for a relatively modest fee. Setting up a private foundation requires a greater number of structural decisions to be made at the outset, but with professional help, private foundations can also be initiated promptly and begin functioning straightaway; most donors turn to an attorney or a firm such as Foundation Source to accomplish this. Because a private foundation is an independent entity, it must apply to the IRS for recognition as a tax-exempt organization and it can take some time for the final recognition to be received by the IRS.

- Tax deductibility—Gifts to DAFs or private foundations are tax deductible against income tax, although there are different limits against the donor's adjusted gross income (AGI). Gifts to DAFs and private operating foundations yield maximum tax deductibility to donors. For example, cash donations to DAFs and private operating foundations are deductible up to 50% of the donor's AGI, whereas cash donations to private non-operating foundations are only deductible up to 30% of the donor's AGI. Please see the appendix for further comparison of deductibility limits based on type of donation.

- Administration—Administrative tasks are a necessary part of grantmaking, from determining a grantee's tax status, through mailing checks, to filing annual tax and information returns. Private foundations must do the work themselves, or hire outside help. Outside help might be in the form of staff, consultants, or a firm that offers "back office" administrative support. Sponsoring organizations charge a fee (usually based on asset size) to handle administrative tasks for DAF holders.

- In-house expertise—Sponsoring organizations provide extensive expertise to the DAF holder. To begin with, they have the capacity to assess whether a grantee is a public charity that is eligible to receive a grant. Different types of sponsoring organizations offer different services to their clients. Community and public foundations know their community or issue area well and can provide excellent information to the donor about strategic or effective grantees. Most national sponsoring organizations (as well as larger community foundations) have in-house experts in complex gifts that involve converting non-cash assets into tax-deductible gifts, and, because of their size, have excellent technological resources. National sponsoring organizations, particularly the larger ones, typically maintain extensive national databases with relevant information about prospective grantees. In contrast, private foundations typically need to hire consultants to provide expertise, unless the individuals involved (such as board members or staff) bring these skills with them.

- Staffing—Private foundations may hire their own staff, including family members (provided the hiring is done carefully to avoid violating self-dealing rules). Sponsoring organizations staff DAFs themselves, however, and the donor has no authority to hire and pay staff from the DAF account to manage the fund.

- Giving levels—Although there is no legal minimum annual payout requirement from DAFs unless the sponsoring organization has established its own minimum by policy, there is a required level of annual charitable distributions from private foundations: a minimum payout requirement in grants and reasonable administrative fees of 5% of the average value of the previous year's investment assets.

- Duration—Private foundations are generally set up to continue in perpetuity and may last for many generations. In contrast, some sponsoring organizations may limit a DAF's number of successor advisors and eventually transfer a DAF's assets to the sponsoring organization's general fund for charitable grant-making.

- Grantee selection—It is important for donors to DAFs to understand that once they make the donation into the DAF, final selection of grantees is controlled by the sponsoring organization. Donors retain the right to advise, but not to control, gifts and grants from DAFS, although donor recommendations are respected and usually followed. In contrast, private foundation directors or trustees do have final say over grant recipients and grant levels. In addition, although DAFs are limited to granting to certain types of 501(c)(3) public charities, private foundations have greater flexibility in grantmaking and may give to individuals (under certain restrictions about procedures for determining recipients) and to for-profit entities for charitable purposes—so long as certain procedures are followed. Pledges made by DAFs also must be approved and administered by the sponsoring organization, whereas private foundations are able to make and fulfill pledges directly.

- Investment management—DAFs are invested and managed as part of the sponsoring organization, and they therefore derive the benefits of the sponsoring organization's investment expertise and large investment pool. DAF holders typically choose from a few types of investment plans but do not otherwise determine how the assets are invested. Such policies vary among sponsoring organizations, however, with some inviting donors at certain giving levels to choose an investment manager for their DAF. In contrast, private foundations manage their own investment portfolios and can choose to leverage them using tools including best practices, socially responsible investing, and program related investments.

- Transparency and anonymity—Although sponsoring organizations and private foundations both file annual publicly available tax forms (Form 990 and Form 990-PF, respectively), giving through a DAF creates a greater degree of anonymity for donors who wish to remain anonymous. When an individual or private foundation makes a gift to a DAF, the donor or grantor is only identified on the recipient sponsoring organization's Form 990 when the amount of the gift exceeds the greater of $5,000 or 2% of the sponsoring organization's contributions reported for that year. When an advised gift is made out of the DAF, the sponsoring organization typically gives the DAF advisor the option of being anonymous to the recipient public charity.

  In contrast, donors who give $5,000 or more to private foundations are identified by name on Schedule B attached to the Form 990-PF, and all grants that are made from the private foundation are also identified on the 990-PF. Therefore, donors to private foundations do not have the option of remaining anonymous, and private foundation grant payments are a matter of public record.

II. When the Best Strategy Is Both Strategies

In consultation with his or her client, a professional advisor should cover certain questions in order to identify how the client might best use the charitable vehicles available. The following list below is not comprehensive, but key questions include:

- Does the client wish to use the fund to hire staff in order to pursue a charitable mission?
- Does the client wish to make grants to individuals, such as for hardship?
- Does the client wish to grant to charitable projects being carried out by for-profits?
- Does the client want control over investment management?
- Does the client want final say over grantmaking decisions?
- Is the client willing to meet a 5% minimum annual charitable distribution requirement?

If the answer to one or more of the above questions is an unequivocal "yes," it is likely that a client will benefit from allocating at least a portion of his or her dollars to a private foundation.

Of course, DAFs remain a great solution to consider instead of, or in addition to, a private foundation. Additional questions, including those that follow, will help tease out the client's circumstances and priorities:

- Does the difference in tax deduction limits against AGI make a difference to this client?
- Is reduction of initial setup costs a high priority?
- Is the individual prepared to select a board, operate a grantmaking program, and manage an organization or hire someone to handle these responsibilities on behalf of an entity?
- Does the client wish to remain anonymous with some or all grants?
- Does the client wish to highlight issue areas or legacies with name attribution?
- Does the client want the responsibility of ensuring that grantees or their projects are legally approved?
- Does the client already have access to expertise with valuing and documenting any planned donations of non-cash or non–publicly traded assets?

A skilled professional advisor will listen carefully to the answers to these and other questions and gather as much information as possible to effectively assist their client.

The professional advisor should assist in identifying and prioritizing relevant factors, including the tax implications, remembering that every situation is unique to that client. A skilled advisor will assist the client in finding creative solutions that are legal, ethical, and in the client's best interest.

The next sections highlight many of the ways donors can get the best of both worlds, using both a private foundation and a DAF to complement one another.

A. GETTING STARTED

Even when the private foundation structure is the best fit for a client's future needs, starting out with a DAF can be a great introduction to philanthropy and foundation management.

Opening a DAF before creating a private foundation may be the best approach if the client is new to both philanthropy and private foundation management. To be a skilled philanthropist takes time, energy, and thoughtfulness. So does running an organization. Creating a new private foundation requires both philanthropic and organizational management skills. By allowing a sponsoring organization to manage the day-to-day administration of a fund, a new philanthropist can focus on developing a great portfolio of grantees, testing out different giving areas to find his or her strategic giving focus, and getting hands-on experience with the giving cycle. The individual client can then fund a new private foundation later after acquiring experience in grantmaking.

Similarly, if the client needs an immediate tax deduction within the current tax year but isn't ready to set up a new foundation, a DAF may be a good fit. Establishing a DAF and making a tax-deductible donation into it can be done with less paperwork and fewer organizational decisions than creating a private foundation. That said, if the private foundation structure is the appropriate one, and the amount of assets to be transferred are substantial in the long term (allowing for future pass-through or other funding), it is worth the cost of establishing the private foundation at the outset.

REMEMBER: FUNDS IN A DAF CANNOT BE TRANSFERRED OR GRANTED TO A PRIVATE NON-OPERATING FOUNDATION

If a client opens a DAF as a first step, and plans to open a private non-operating foundation later, he or she should not expect to be able to move the funds from the DAF to the foundation. Depending on the sponsoring organization's policies, assets in a DAF can often be granted to a private operating foundation. If the long-term best fit for a donor is a private non-operating foundation, the donor is better advised to create the private foundation and contribute the funds directly to it.

B. IDENTIFYING ELIGIBLE GRANTEES

For DAF holders, sponsoring organizations will conduct due diligence on grant applicants to confirm that they are eligible grantees. In most cases, conducting due diligence is not difficult to do, although it is an important step in good grantmaking. However, in certain situations, it is difficult to determine the eligibility of the grantee with confidence. The most common cases include:

- Group exemptions, such as some churches and some organizations with chapters in different locations (IRS data on group exemptions is oftentimes incomplete)
- Supporting organizations (described in Section 509(a)(3) of the Internal Revenue Code)
- Some organizations with international connections, where there may be risk of terrorist connections, or that may trigger additional IRS scrutiny

Sponsoring organizations are familiar with these situations and assume legal responsibility for grants made to such organizations from DAFs. A DAF should be considered if a client is concerned about such situations. Some sponsoring organizations also maintain extensive resources, including in-house databases of past research for other clients, or they may conduct additional due diligence, such as searching news sources to ensure that grantees are not involved in scandals or are otherwise risky.

On the other hand, sponsoring organizations will only make grants to certain types of grantees, which limits the pool of eligible grantees. A client should consider the private foundation vehicle if he or she is likely to want to make grants to a wider range of grantees, such as:

- Private non-operating foundations
- For-profit organizations for charitable projects
- International organizations (check with your sponsoring organization)
- New charitable organizations that have not yet received their IRS determination letters
- Organizations that are tax-exempt but not501(c)(3) entities—such as 501(c)(4) civic leagues, 501(c)(5) labor organizations, and 501(c)(6) business leagues—for charitable projects
- Individuals for disaster relief or emergency hardship
- A scholarship program that the client wishes to administer in-house

If the client expects to make such grants, he or she should consider a private foundation instead of, or in addition to, a DAF.

C. CONNECTING WITH COMMUNITIES, ISSUES, AND OTHER FUNDERS

Community and public foundations, both common sponsoring organizations, know their communities well. Many of these types of sponsoring organizations offer educational programs, special events or other resources that translate into great connections to effective grantees or funders with shared interests, as well as ideas for better grantmaking practices and strategies.

D. MAXIMIZING THE TAX DEDUCTION

Donations from an individual to either a private foundation or a DAF are tax deductible, but the maximum deduction is more generous for gifts of cash to a sponsoring organization (50% of the donor's AGI) than to a private foundation (30% of AGI). Similar reductions exist for gifts of long-term capital gain property. Depending on how the client's income is structured and the amount that the client wishes to donate, DAFs may provide an attractive complement to a private foundation.

E. SUSTAINING HISTORICAL FOCUS

Sometimes a foundation finds itself without board members who are knowledgeable about a community or cause that the foundation has supported historically. This can happen in family foundations, when children, grandchildren, or even other family members in the same generation move to other parts of the country. It can happen also in independent foundations, such as when the board comprises friends of a deceased client who all live in different regions.

In other cases, an initially relevant focus or mission can become less critical over time, and the foundation may decide that other needs are more important. As society changes, changes in the foundation's focus or community's needs can occur, or other needs may take precedence.

In either situation, the board may be interested in continuing (or legally obliged to do so) to support that community or cause, albeit to a lesser degree, while broadening its grantmaking to other issues or geographic regions.

Establishing a DAF can be an excellent way to continue historical support. The foundation can even rely on the expertise of the sponsoring organization's staff to assist with grantee selection. Here are some examples:

- A donor earned his wealth in Boston, MA, and the foundation he established gave primarily to grantees within that community. His grandchildren now run the foundation, but they are second generation Californians who don't feel connected to Boston's needs or charities. They might choose to set up a DAF at The Boston Foundation, a community foundation serving the greater Boston area, and work with the community foundation's staff to identify excellent local grantees.

- Four friends are now managing the foundation established by their friend, a marine biologist. The foundation has historically given half of its grants to environmental causes to improve water quality, and half to poverty alleviation in Chicago, IL. The donor has passed away. All the board members live in Chicago and feel connected to that city, but they know little about marine biology. The foundation might choose to make poverty alleviation grants themselves but create a DAF at The Ocean Foundation, a public foundation that administers DAFs for donors "who care about the coast and oceans."

- When a private foundation wishes to continue to support several different regions or issue areas from one fund, establishing a DAF with a national sponsor may be the best choice. For example, imagine that a now deceased donor had initiated grantmaking programs to support job training for Native Americans in Hawaii and South Dakota. The current board of directors says that the programs are well established and wants to introduce the model in other states. The foundation might open a DAF with a national sponsoring organization to continue grants in Hawaii and South Dakota while it focuses more energy on building its networks and giving programs in other parts of the country.

F. HONORING A LEGACY

A private foundation can establish a DAF and name it to honor a particular family member or friend, highlight an important cause, or underscore its connection to the foundation. Any gifts made from the DAF are given in the fund's name and appear on the grantee's publicly available tax filings and other naming opportunities.

For example, The John A. & Margaret T. Witherspoon Foundation could create DAFs named The Alice Witherspoon Memorial Fund in honor of a deceased aunt, Literacy Matters to promote adult literacy education, and The Witherspoon Early Education Foundation to connect the family's name with the importance of funding early education.

G. GIVING ANONYMOUSLY

Sometimes a donor or a foundation is less interested in drawing public attention to gifts made. This might be the case for many reasons, such as to prevent solicitations or to keep a low profile in a small town or controversial funding area. DAFs can be an excellent solution.

DAFs allow donors a greater degree of anonymity, because the donor may choose what is disclosed to the grantee. The donor can disclose the donor's name, only the name of the donor's DAF, or neither, remaining completely anonymous. Typically, a DAF holder can decide on a grant-by-grant basis if the gift will be anonymous, confidential, or publicly acknowledged.

However, if a client wishes to make a completely anonymous gift to a DAF that is extremely large relative to the sponsoring organization's reported contributions, retention of an experienced attorney may be advised to better ensure anonymity. Although the sponsoring organization will not itemize donations on its Form 990, if a grant is unusually large, and a researcher extremely thorough, in some cases it may be possible to tease out who the initial donor could have been.

H. GIVING OUTSIDE A FOUNDATION'S MISSION

A mission statement is a powerful tool that can help private foundations focus their work, be more efficient with board member and staff time, and increase the foundation's impact.

Unless the mission statement is locked into a trust document or specified in the Articles of Incorporation, the foundation's mission is not legally binding. In all other cases, foundations are free to make grants outside their missions without setting up a separate structure such as a DAF.

That said, in some situations, giving through a DAF can be a great strategy for giving outside a foundation's mission. Here are three examples:

- A foundation is deeply involved in giving in its local community and spends substantial time volunteering with grantees, doing site visits, and making strategic grants to improve the quality of life there. Then, after a recent tragedy in Southeast Asia, the board feels moved to also make a modest grant to support recovery efforts internationally. The board decides that 10% of the foundation's grantmaking dollars should be donated to international causes through U.S.-based international intermediaries, but they don't have time to research intermediaries that are the best fit. They might set up a fund for giving through a national sponsoring organization, or with a public charity that specializes in making grants to Asia, and work with gift fund staff to identify the best grantees.

- A private foundation might choose to use a DAF for its discretionary grants. By board policy, each board member may be allowed to direct a small percentage of the foundation's grants each year to the charity of his or her choice. The foundation gifts the funds to a DAF, and the sponsoring organization is asked to allow each board member to advise on the grantees. This has two strategic advantages. First, the foundation can rely on the sponsoring organization to vet grantees as eligible recipients. Second, each discretionary grant will be attributed to the DAF rather than the foundation, which reduces the likelihood that grantseekers will contact the foundation with requests for grants outside the foundation's mission. This saves valuable time for both the foundation managers and the grantseekers.

- In the case of a family foundation, either a DAF or a private foundation can be an effective vehicle for involving the next generation, depending on how the donor or foundation board wants to include younger family members. The foundation can establish a junior board, can invite the next generation to suggest grantees or go on site visits, or can establish discretionary grants for younger family members. The foundation could set up a DAF for the next generation and create a list of advisors to the DAF that includes the next generation. This helps younger donors get a feel for grantmaking and teaches powerful lessons about generosity and giving back.

I. GIVING ON YOUR OWN TIMETABLE

The IRS requires private foundations to distribute 5% of their assets annually using a formula that relies on an average of the previous year's monthly asset base. There is no legal minimum payout requirement for a DAF, although some sponsoring organizations institute one by policy. Donors should carefully read the sponsoring organization's terms and conditions. If the sponsoring organization has no payout requirement, a donor to a DAF can recommend grants be paid out at a higher or lower level than the 5% legally required of a private foundation.

J. ENCOURAGING COMMUNITY GIVING

A private foundation might want to encourage more giving in the community where it operates, or by its board members. A DAF established by the foundation can be a strategic way to accomplish this. For example, a private foundation can establish a DAF for a specific cause or purpose and encourage community members to also donate to the DAF. Likewise, to encourage increased giving by individual board members, in a mission-focused foundation, a DAF may help to support board members' diverse charitable interests while keeping the foundation focused on its mission. Some foundations even establish matching grant programs whereby the foundation matches board members' personal donations to a DAF affiliated with the foundation.

K. GIVING AFTER A FOUNDATION CLOSES

Although the majority of private foundations are established to exist in perpetuity, it is becoming more common for foundations to consider closing shop. To avoid potentially steep penalty taxes upon closing their doors, private foundations frequently transfer their assets to qualified public charities. Rather than spending out entirely through grants to public charities that operate programs, some private foundations elect to transfer some or all of their remaining assets to DAFs or other types of funds held by sponsoring organizations.

Transferring assets to a DAF allows donors to continue to be involved in making grants long after the foundation closes. Here's how it works: One or more advisors specified by the foundation at the time of the transfer make recommendations for how grants are distributed by the sponsoring organization. In the years to come, the advisors can make specific recommendations or allow the sponsoring organization staff to select grantees. In either case, the sponsoring organization—whether a community foundation, a public foundation, or a national sponsor—manages the grantmaking process and handles the administration.

III. Conclusion

As one professional advisor said, "My biggest competitor is not other funds, it's not other sponsoring organizations, and it's not private foundations. My biggest competitor is inefficient giving."

By working well with clients and prospective clients—whether advising them to use the services you offer or not—professional advisors can help philanthropic clients find effective strategies for giving using the most appropriate charitable vehicles. This approach will result in more satisfied clients, increased philanthropy, and more business for all types of sponsoring organizations.

The strategies described in this guide are not exhaustive. A professional advisor should be flexible and responsive to funders, whether individual clients or private foundations, and be creative in finding ways to support more effective philanthropy.

For more information, contact Exponent Philanthropy at 888-212-9922, your local community foundation, the appropriate public foundation, or a national sponsoring organization.

IV. Appendix: Limitations on Charitable Contributions Income Tax Deductions

[1] The amount of deduction is determined at date of gift. The amount of deduction can be used to offset a percentage of the donor's adjusted gross income in the year of gift, up to the amount set forth in the "% Limitation" columns. The amount of deduction not used in the year of gift can be carried forward for five years.

[2] If the property is given "for the use of " instead of "to" the charity, the deduction will be limited to 20 percent of the donor's adjusted gross income (whether the gift is made to a private foundation or a public charity). The phrase "for the use of " does not refer to whether the use is related vs. unrelated, but instead refers to direct vs. indirect contributions: contributions to a charitable lead trust or a charitable remainder trust, where the charity does not receive a direct distribution on death, but a continuing income interest, are indirect, and therefore qualify as being made "for the use of " the beneficiary charity.

Percentage limits for private foundations are always the lesser of the percentage given in the table, or the corresponding percentage for public charities, less any gifts actually made to public charities. Contributions within a single category are aggregated over the year.

[3] Qualified appreciated stock is certain unrestricted, publicly traded stock held for more than a year. See Section 171(e)(5).

[4] Beginning in 2005, contributions of patents receive special treatment.

[5] The amount of the deduction is the gift's fair market value (FMV) , and the percentage limitation is 30 percent. Alternatively, the donor may elect to have the amount of the deduction limited to the donor's basis (or FMV if lower, see Note 4), and have the percentage limitation increased to 50 percent.

[6] The deduction is reduced from FMV by the amount of gain that would not be long-term capital gain if the asset were sold, which results in a deduction equal to basis (i.e., the value assigned to a taxpayer's investment in property and used for computing gain or loss from a transfer of the property); provided that if the basis exceeds FMV, the deduction is limited to FMV.

[7] There are special deduction rules for certain contributions of inventory.

[8] Beginning in 2005, there are special rules limiting the deductibility of vehicle donations. For vehicles donated to a charity for unrelated use, the deduction is limited to the gross sales price the charity receives for the vehicle.

About Exponent Philanthropy

Exponent Philanthropy amplifies and celebrates the vital work of a diverse group of funders who give big while keeping their operations lean, including foundations, public charities, donor advised funds, giving circles, and individual donors. We're a vibrant membership organization, providing resources and valuable connections to help funders make the most of the minutes they have and the dollars they give. **www.exponentphilanthropy.org**

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