

THE TOP 10 ADVANTAGES OF HAVING A PRIVATE FOUNDATION

How You Can Get More from Your Giving

Some folks start a private foundation because they want to give back; they want to help out the people, institutions, and communities they care about. For others, the initial interest is tax savings, perhaps inspired by a conversation with a trusted advisor.

Whatever the impetus, even people who have had a private foundation for years are often unaware of the full capabilities of this powerful and flexible philanthropic vehicle. Giving through a private foundation offers tremendous advantages over giving as an individual donor. Here are just a few.

1 TAX SAVINGS

Private foundations offer significant tax benefits for individuals and families.

A current-year tax deduction—yet the ability to give over time.

Although individual philanthropists often rush to get their tax deductions in at the end of the year, private foundations have the luxury of taking a more leisurely and considered approach. With a private foundation, you get the tax deduction up front, when the foundation is funded, and then you make your charitable gifts over time. The only requirement is that your foundation must make "qualifying distributions" each year of at least 5% of the previous year's average net assets. Because you use the previous year's assets as the benchmark, that means a new foundation doesn't have to make a single grant in the year it is started. At Foundation Source, we track our clients' progress toward satisfying their qualifying distributions, so they



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always know where they stand and can plan their giving accordingly.

Assets that you transfer to your foundation are exempt from estate and gift taxes, yet they remain under your control for perpetuity.

Although contributions to your foundation are irrevocable and must be dedicated to charity, you and your family continue to decide how those assets will be invested, and where and how they will be granted. Moreover, because those assets

are only subject to an excise tax of 1.39% on the net capital gains, they can grow substantially through compounding. Over time, your initial funding can become a considerable endowment.

Avoidance of capital gains on appreciated assets.

You can donate appreciated assets to your foundation, such as low-basis stock that you've held for years, and realize a tax deduction for their full fair market value of up to 30% of adjusted gross income (AGI) with a five-year carry forward.

2 LEAVE A LASTING LEGACY

The majority of foundations are set up to exist in perpetuity. Unlike a direct gift that benefits one recipient on a single occasion, a foundation perpetuates your family's generosity and burnishes your name far beyond your lifetime. Today, Carnegie and Rockefeller are better remembered for their philanthropic legacies than for their accomplishments in the steel and oil industries. And because gifts are made from an endowment that generates investment revenue, the total gifts made by the foundation over time can far surpass the initial funding.

3 BUILD A BETTER FAMILY

Many people start their foundation specifically to get their family involved. A private foundation provides a forum for different generations to work together towards a common goal. It also provides an unsurpassed way to:

Keep the family together.

A private foundation provides a non-Thanks-giving reason for geographically dispersed family members to meet on a regular basis.

Transmit family values.

Our culture offers very few opportunities to pass on core values to the next generation. A family foundation affords that rare opportunity to not only discuss what matters most to you, but to actually demonstrate your commitment to those principles with deeds as well as words.

Teach critical life skills.

As family members take on philanthropic research, present their findings to the board, participate in the decision-making process and track results, they experience the fun of doing good work while honing skills that will serve them for years to come.

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4 SIDESTEP UNSOLICITED REQUESTS

Although an individual can just write a check, private foundations have boards that must approve funding. Even if your foundation's board consists only of immediate family members, you'll have a guilt-free way to filter unsolicited requests for financial support. You'll be able to say, with perfect sincerity, "It's a wonderful cause, but I'll need to take this to my board." Additionally, should you decide to focus your foundation on specific giving areas, your mission statement could be used to delineate the types of organizations you would consider funding, providing an easy out for declining random requests for funding that fall outside of your guidelines.

5 PUT YOUR DOLLARS WHERE THEY WILL DO THE MOST GOOD

Private foundations commonly grant to public charities, but that's not all they can do. With a private foundation, you can:

Grant to individuals and families in need.

While nothing prevents you from simply writing a check right this minute to someone in need, a private foundation allows you to provide emergency assistance to individuals and families using dollars for which you've already received a tax deduction. The IRS allows private foundations to provide funds to individuals for emergency relief or hardship assistance in circumstances such as loss of employment, illness, and temporary displacement. And Foundation Source has created a streamlined process that makes it easy to give these types of grants!

Make international donations.

Private foundations can grant directly to overseas charitable organizations, even when there is no IRS-recognized 501(c)(3) entity to serve as an intermediary. For example, some foreign charities are automatically recognized by the IRS because of their special status (e.g. the United Nations); others have set up a U.S.-based "friends of" organization that is a recognized 501(c)(3) public charity that can accept funds on their behalf. But when there's no easy route to channel funds to a favorite organization overseas, Foundation Source can still help you make a grant by providing additional oversight, either by finding the organization to be "equivalent" to a U.S. public charity, or by exercising "expenditure responsibility."

Give awards and prizes to spur progress.

One effective and often-overlooked method of driving innovation and creating buzz around one's field of interest is to offer a prize. For example, the first non-government-supported space flight was the product of competition created by the \$10 million X-Prize. Prize-based philanthropy spurs innovation by enabling donors to leverage the creativity of many people to innovate or solve a problem without having to support each person individually.

Award scholarships.

With advance approval from the IRS, foundations may run scholarship programs and choose the recipients. This capability allows you to give back to your community in a profoundly personal and powerful way. Some foundations choose to reward not just high-achieving students, but also those who exhibit the values and potential that they wish to promote in their community. Foundation Source can help design your foundation's scholarship program and handle the IRS approval process.

6 RUN CHARITABLE PROGRAMS WITHOUT SETTING UP A SEPARATE NONPROFIT

A private foundation can run its own programs, in addition to making grants to fund someone else's. Direct charitable activities (DCAs) are IRS-approved programs that permit foundations to directly fund and carry out their own projects. This brand of "hands-dirty" philanthropy suits entrepreneurial types who want to contribute both financial and human capital to the causes they care about. For ideas big and small, direct charitable activities allow private foundation donors to use their unique resources and skills to produce results that dollars alone wouldn't buy. Examples of successful direct charitable activities we've helped facilitate include:

- Providing highly durable soccer balls to kids in war-torn countries
- Running a small mathematics museum to teach children the importance of math in everyday life
- Purchasing business attire and paying for the removal of gang tattoos to help paroled prisoners rejoin the workforce

Running your own programs suits entrepreneurial types who want to contribute both financial and human capital to the causes they care about.

7 MAKE LOANS INSTEAD OF GRANTS

Would you like to extend credit to a local bakery employing homeless people? Perhaps you'd like to purchase stock in a documentary film company that educates others about your favorite charitable cause. Instead of an outright grant, you might consider giving a low-interest loan to a nonprofit (such as a charter school or church) to begin construction on a new facility while conducting a capital campaign. With a private foundation, you can do all of these things and much more.

Loans, loan guarantees, and equity investments, when made by a foundation specifically to support a charitable purpose, are called Program-Related Investments (PRIs). These financing mechanisms, historically associated with banks or private investors, enable private foundations to get a return on their investments, either through repayment or return on equity. And because PRIs are repaid (potentially with interest), you are able to recycle your philanthropic capital for another charitable cause.

8 PAY CHARITABLE EXPENSES

When you have a private foundation, all legitimate and reasonable expenses incurred in carrying out the foundation's charitable aims count toward your minimum distribution requirement. For example, conferences, office supplies, and travel expenses for site visits and board meetings—even our fees at Foundation Source—count as "qualifying distributions."

9 HIRE STAFF (EVEN FAMILY MEMBERS)

If you have a foundation, it's permissible to pay qualified staff for their foundation-related work—even if your foundation is staffed by family members. Federal tax law permits foundations to pay "reasonable compensation" for personal services.

For example, one family appointed their daughter, an art school graduate, to serve as the executive director of their foundation. Because the foundation was active in the region's arts and culture scene, she was able to make valuable connections, get an insider's perspective on grantee organizations, and eventually land her dream job of assistant curator at a local museum.

If you'd like to pay a foundation member, Foundation Source offers a compensation benchmarking program that can help ensure compliance with IRS regulations.

10 TRAIN THE NEXT GENERATION FOR SUCCESS

Many families of wealth want to give their children "enough to do something, but not enough to do nothing." They don't want their wealth to kill their children's ambition—especially if that wealth passes to their children before they've had a chance to develop sufficient maturity and personal goals. For these families, a foundation is the perfect fit.

A private foundation enables children to participate in wealth and understand both its power and responsibility.

A private foundation enables children to participate in wealth and understand both its power and responsibility—all without taking control of it. By seeing how the foundation manages its investments, deliberates over its grants and expenses, and impacts the communities it serves, children learn the value of money in ways no lecture can ever hope to match.

ABOUT FOUNDATION SOURCE www.foundationsource.com

Foundation Source is the nation's largest provider of comprehensive support services for private foundations. Our complete outsourced solution includes foundation creation (as needed), administrative support, active compliance monitoring, philanthropic advisory, tax and legal expertise, and online foundation management tools.

Now in our third decade, Foundation Source provides its services to more than 1,650 family, corporate, and professionally staffed foundations, of all sizes, nationwide. We work in partnership with wealth management firms, law firms, accounting firms, and family offices as well as directly with individuals and families. Foundation Source is headquartered in Fairfield, Connecticut.

Have a question? Call 800.839.0054 or send us an email at info@foundationsource.com.

55 Walls Drive, Fairfield, CT 06824
T 800.839.0054
F 800.839.1764
www.foundationsource.com

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