

A Private Foundation or a Fund at a Community Foundation: Weighing the Options

Today's donors have a number of options for their philanthropy. This writing explores the factors donors should consider when deciding on a vehicle for their charitable giving.

Private foundations remain a popular option, and for some donors, they are the right choice. But as the *Wall Street Journal* reported on April 22, 2009, there is an increasing trend toward terminating private foundations and transferring the assets to community foundations or commercial gift funds, suggesting that they weren't the correct vehicle in the first place. The president of the Foundation Center, which recently surveyed family foundations, said: "As these young foundations face transition in leadership from the first to the second generations, questions about sustainability, family capacity or commitment, donor intent, and foundation impact may lead them to consider their options." The issue of sustainability is further exacerbated by the annual costs to maintain a private foundation and the current economic climate.

Commercial gift funds—essentially, donor advised vehicles offered by financial firms—are a great choice for the transactional donor. While they don't offer a dedicated relationship manager, customized philanthropic advice or access to community expertise, they are nevertheless a good low-cost option.

Community foundation funds offer many of the benefits of a private foundation at economies of scale, resulting in lower costs. They also offer customized philanthropic advice. For example, they can help donors learn the most effective way to give to natural disaster relief efforts, establish scholarships or simply ensure that the money they donate is being used the way the donor intended. In addition, they have access to community expertise, best practices and national trends, so donors can invest in organizations that are doing good work in education or redressing adult illiteracy or any number of other causes of importance to the donor. In short, a donor (or their loved ones) establishes a fund at the community foundation to carry out their charitable objectives and enjoy meaningful opportunities to engage their philanthropy—including invitations to exclusive donor events and educational convenings, courtesy of a dedicated philanthropic adviser.

Community foundation staff knows the issues, trends, and effective players in the community; they are connected to grant makers all over the world. They are charged with ensuring that grants from their permanent funds carry out the donor's purpose effectively while meeting contemporary needs.

Below we compare some of the costs and benefits of a fund in a community foundation with a private foundation.

Administrative Considerations:

Expertise & Support. Community Foundations are staffed by seasoned professionals who are experts in their fields. Their philanthropic advisers know the issues, trends, and effective players

in the community. And through an international network of community foundations and other sources, they are connected to grantmakers all over the world, which means community foundation donors enjoy access to global expertise, delivered locally. Charged with ensuring that grants carry out the donor's purpose effectively, community foundations perform all due diligence and oversight regarding the grantmaking process and ensure that donors' charitable giving comports with federal and state law. Donors can consult with philanthropic advisers about their charitable giving or simply recommend grants to charities through their own named fund. Community foundations offer excellent donor service, sound fiduciary oversight, and practical advice on charitable tax and estate planning matters as well as strategic community investment. These services are also available to private foundations through the use of staff or outside consultants.

Permanence. Community foundations work with donors and their loved ones to engage them in their philanthropy during their lifetimes. They also work with families to form permanent endowments to preserve the family's charitable legacy and benefit the charities and causes they care about, now and forever. Because community foundations also exist in perpetuity, families can have peace of mind that an independent expert remains in place to conduct due diligence and engage in oversight of the donor's philanthropy, forever.

Cost Effectiveness. Private foundations can be costly to establish and maintain, reducing the amount available to charity. Even for the simplest private foundation, initial filing and approval can take months and cost thousands of dollars. Routine operating items such as auditing, bookkeeping, and government reporting can add significantly to the cost. Philanthropic advice, available through a consultant or paid staff, also costs extra. Additionally, private foundations are subject to a minimum required distribution annually, as well as additional taxes. On the other hand, funds at community foundations are considerably less costly to establish and operate. Equally important, a fund at a local community foundation can be established quickly and the quarterly service fee is modest. As a result, more money is available for grant making.

The Right of Privacy and the Choice of Anonymity.

Private foundations are required to make public the names of donors to private foundations as well as the grantee organizations the foundation chooses to fund. As a public charity, community foundations are generally not required by the IRS to disclose the names of donors to their funds or the names of organizations donors choose to fund. For that matter, donors who do not desire publicity and wish to keep their gifts anonymous can accomplish this through a community foundation.

Flexibility. Almost any philanthropic purpose can be accomplished through a community foundation, which is structured to meet a broad and evolving set of charitable needs in a geographic region, while allowing donors who choose to create donor advised funds to suggest grants to qualified nonprofit organizations throughout the world.

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Deductibility of Charitable Gifts. Funds in community foundations also enjoy preferential tax treatment in a number of ways. As public charities, community foundations offer donors tax deductions that are often superior to those accorded private foundation donors. For example, for gifts of cash, donors to community foundations may deduct up to 50 percent of adjusted gross income (AGI) in the year of gift, with a five-year carryover for excess contributions, while private foundation donors may deduct only up to 30 percent of AGI with the same carryover.

Other Rules Governing Private Foundation Activities. The Internal Revenue Code and government regulations embody numerous provisions that constrain private foundations. Generally, these restrictions do not apply to community foundations. Private foundations that fail to properly abide by these requirements may be subject to penalty taxes.

Excise Tax. Private foundations pay a 1-2 percent excise tax on net investment income, effectively reducing funds available for grants, depending on whether certain payout conditions are met.

Minimum Payout. A private foundation must spend on grants and charitable expenses an annual amount equal to approximately 5 percent of assets, whether or not that much is earned. This can threaten the long term sustainability of the organization.

Before deciding between a private foundation and a fund at a community foundation, donors should consider their long term goals, weigh the immediate and ongoing costs, and the foundation's long-term viability, as well as consult with their professional advisor.