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Why Consider a Private Charitable Foundation?

✔ Convert social capital that would be taken for taxes into types of philanthropy you prefer, while you achieve some family wealth preservation at the same time.

✔ Control the investment and management of charitable "seed money" contributions you make, to build a fund for ongoing charitable purposes.

✔ Control the distributions made from charitable gifts and investment of such gifts for ongoing charitable purposes.

✔ Provide an example to, and train descendants to manage and distribute funds for charitable purposes, for their well-being and for our society and culture.

✔ Assure continued control over substantial charitable gifts, thereby producing a large degree of personal satisfaction and personal influence in the community for yourself and your heirs.

Private Foundations and Public Charities

The tax law divides charities into (1) private foundations, and (2) public charities. The classification depends primarily on the sources of the charity's support rather than on its type of charitable activities. Exception: Churches are all regarded as public charities.

Every exempt charitable organization is assumed to be a "private foundation" unless the organization can show that it qualifies as a public charity. Support for a private foundation comes mainly from investment income and a limited group of persons or businesses.

Advantages of a Standard Private Foundation

You receive an income tax deduction for gifts made, but may continue to control the distribution of the foundation's assets in the future. You may also create a foundation in the your will or living trust, in which case you receive an estate tax charitable deduction. The idea is to set up an entity to work towards long-term goals that will allow you and your family to make a difference in the community. Younger family members will be able to participate, which can be an educational and development process for them.

Many families create, fund, and operate private family foundations. They are almost always the "standard" type of foundation. A private family foundation may allow development of a set charitable program with regular procedures to receive applications for funds and to distribute funds for charitable purposes in keeping with the goals of the foundation. Family members can serve on the board of directors or board of trustees of the foundation, giving them a large degree of personal satisfaction and personal influence in the community. *The next best thing to owning a lot of money is controlling a lot of money.*

Family Foundations

The "standard private foundation" is most common, and is often called a "family foundation." It usually does not carry out charitable activities *directly*, but holds and invests funds for distribution to qualified charities, and it may occasionally make grants to individuals. It usually receives most of its funds from a limited source, such as members of one family, and so it often does not engage in fundraising or seek grants.

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Springing Foundations

A "springing foundation" is one that springs to life in the future, usually when the person or persons who created it have died. Many people make lifetime charitable gifts to charitable remainder trusts, or make charitable gifts that will only take effect at death. In these cases the distributions to charities occur only after the donor has died. The gifts to charity could be outright. Instead they are made to a family charitable foundation run by descendants of the donor.

Where large charitable gifts are involved, many people choose to give their loved ones some right to manage the funds gifted, and to make the actual distributions to charities. The creator of the springing foundation can put many or few controls over the actual charitable purposes that can be met later.

Operating Foundations

"Private *operating* foundations" engage *directly* in charitable activities rather than merely making grants to other charitable organizations or individuals.

Conduit Foundations

A "conduit foundation" is a private foundation through which all contributions *must* flow out to charitable entities within two and one-half months after the end of the foundation's tax year in which the contributions were received. Because of the flow-through requirement, the endowment of a conduit foundation can never grow.

More Information: For more information on this topic call us to arrange for a consultation.

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