

WAYS THAT A PRIVATE FOUNDATION CAN WORK WITH A COMMUNITY FOUNDATION

If your client has his or her own private foundation, or if you decide to create a private foundation rather than create your family foundation at a Community Foundation, there are still ways that a Community Foundation can be very helpful to your and your client's private foundation.

For many years, creating a separate legal entity called a private foundation was the most effective way for a high net-worth, charitably inclined family to manage their giving and philanthropy. People used these private foundations as their family foundation. However, now that a tool called a "donor advised fund" has been blessed by the Internal Revenue Service, community foundations have developed a way of creating family foundations for people using donor advised funds. Savvy individuals and estate planning professionals these days understand that the most effective, tax-efficient, and inexpensive way to create a family foundation is through a community foundation.

While using the community foundation to create your client's family foundation provides a large number of benefits over creating a private foundation, there are still a couple of benefits to the private foundation structure. (1) Family members can be paid by their private foundation "reasonable" compensation for managing their foundation. A family foundation at a community foundation can not pay any family members. (2) Family members have ultimate control over how the private foundation assets are invested. A community foundation has ultimate control over how a family foundation assets are invested, although the community foundation will listen to any investment preferences the family may have. (3) Some people worry that they are losing some "control" if they use a community foundation because, legally, they are giving the assets to the community foundation rather than to their own private foundation. Anyone who actually uses a community foundation as their family foundation will tell you that control is not an issue, but, still, some people aren't comfortable with the sense of losing some control.

CONVERTING A PRIVATE FOUNDATION INTO A FAMILY FOUNDATION AT A COMMUNITY FOUNDATION

Over time private foundations can face challenges in a variety of ways:

- The original purpose may no longer apply or there is a need to update the philanthropic mission to meet changing community needs.
- Financial factors, such as rising operational and investment management costs, may make it difficult for a private foundation to serve effectively and may be draining funds from the charitable purpose.
- It can be difficult to keep up with new and changing government regulations.
- It may be a challenge to meet the annual 5% payout requirement.
- The founder may prefer that his or her family focus on philanthropy, rather than on the foundation's investments and administration.
- The death of the founder or the foundation's primary administrator may bring about a challenge to find a successor.

In any of these scenarios, converting a private foundation into a fund at the Community Foundation may be the solution. Working with a Community Foundation, eliminates administrative burden while maximizing charitable giving with the grantmaking expertise of community foundation staff.

THE TERMINATION PROCESS

The first step is to create a fund at a Community Foundation and choose the name of the fund. Simply complete a fund agreement with the help of Community Foundation staff. Staff will discuss the options with you to make it easy to get started.

Next, begin the process of terminating your private foundation by transferring assets to a Community Foundation pursuant to guidelines of the Community Foundation. The IRS permits a streamlined, less expensive means of terminating private foundations if they transfer their assets to a public charity that has been in existence for over 5 years.

Once your fund is open and your assets have been transferred, a Community Foundation will do the legwork for you with regard to managing your fund and providing you with solid ideas for your grantmaking. We handle the administrative details while you focus on your giving.

Other Options for Private Foundations

If your client's aren't ready to terminate the private foundation, Community Foundations can be the recipients of Private Foundation's grantmaking dollars with an ultimate goal of granting those funds to areas of critical need. Granting to any area of a Community Foundation, including grantmaking programs, endowment, or other funds, meets eligibility for the Private Foundation's 5% payout requirement.