

# Consider a private (family) foundation

A private foundation is a unique way to satisfy your philanthropic goals. Although often thought of as a financial or estate planning tool for the very wealthy, a foundation (either in the form of a corporation or a trust) should be considered by anyone making a sizable gift to a charitable or not-for-profit organization.

## **The rewards of philanthropy**

Setting up a private foundation during your lifetime lets you play an active role in choosing the object of your philanthropy as well as observe the results of your generosity. A foundation lets you make gifts privately and anonymously and can act as a shelter from a constant barrage of solicitations.

Beyond the joy of philanthropy itself, a private foundation offers financial and emotional rewards for yourself and your family. For instance, members of your family may be appointed to the foundation's board of directors. A foundation funded with a major donation may be large enough to provide compensation for family members who carry out administrative functions or serve on the board of directors.

Then, too, consider the pleasure—and sense of family unity—when parents, children, brothers and sisters work together in their charitable endeavors. What's more, future generations can learn by example important lessons about generosity.

Finally, if you are approaching retirement (or are already there), a private foundation offers an opportunity to stay active. By taking responsibility for reviewing grants and performing other foundation duties, you can play an important role in the welfare of the community and the world at large. At the same time you can increase your knowledge and skills, using your creativity and energy in new ways.

## **Some tax issues**

Contributions to a private foundation, for the most part, qualify for income, estate and gift tax deductions in much the same way that other charitable contributions do.

To obtain tax-exempt status for your private foundation, you and your financial advisers will have to wade through complex tax code rules and restrictions. Three of them are worth mentioning here:

- First, the maximum income tax deduction available for contributions to a private foundation in any year is 30% of a donor's "contribution base," a modified form of adjusted gross income (AGI). For long-term capital gain property, the limitation is 20%. The comparable figures for most other kinds of charitable contributions are 50% and 30% respectively.

- Second, a private foundation must distribute annually at least 5% of the value of its assets. As an example, a foundation with assets of \$5 million must give away at least \$250,000 to charity this year.

- Third, an excise tax is imposed on a private foundation's annual net investment income. Generally speaking, the tax is 2%, but in some instances it may be reduced to 1% of net investment income.

### **To find out more**

A private foundation is an excellent way to enjoy the fruits of your philanthropy. In addition, there are many other ways to make substantial contributions to organizations that offer you significant benefits as well.

If you would like to learn more about making a significant gift to charity, contact us. We will be glad to discuss how to integrate your philanthropy with your financial and estate planning goals.

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Any developments occurring after January 1, 2008, are not reflected in this article.