

Is a Private Foundation Right for You?

/ **BENEFITS AND CONSIDERATIONS** **BEYOND THE TAX SAVINGS** /

The ability to make a difference in people's lives through one's own private foundation is typically considered a defining mark of achievement. However, it can also make a profound difference in your own life and that of your family. It exerts a unifying force, similar to a family business, by providing a formal structure linking together several generations working toward a common philanthropic goal. By providing a reason to meet and converse, it becomes the glue that holds together family members who are geographically dispersed. And, if the foundation is set up in perpetuity, it transmits the family value system, preserving the memory and interests of the founder to subsequent generations.

However, for many people contemplating a charitable vehicle, the default choice is often a donor-advised fund (DAF). Despite the many benefits that private foundations confer, some people shy away from them because they've heard that private foundations are difficult to set up and manage. Although these once may have been valid concerns, today there are firms that provide the same sort of turnkey services that were once only available with DAFs. Thanks to advanced technology and the outsourcing of services that automate and simplify the way private foundations are operated, families can set up a foundation in a matter of days and enjoy the control and flexibility that only a private foundation can offer without any of the traditional complexities.

Although DAFs and private foundations are both effective charitable vehicles, they offer different levels of control, authority, and philanthropic versatility. Because a private foundation is a freestanding legal entity (unlike a DAF, which is an account housed in a charity or financial institution), donors can nominate their own board members, establish their own organizational guidelines and bylaws, and act as the final authority in making their own investment and grantmaking decisions.

While DAFs are typically limited to making grants to publicly supported charities, the IRS gives private foundations broad latitude to pursue almost any philanthropic strategy, cutting out the middleman and putting tax-advantaged dollars where they'll do the most good. So, if you want to give to a small, privately run orphanage in Africa that's unknown to the IRS, you can do it. If you want to help individuals and families struggling to rebuild in the wake of a hurricane, you can put funds in their hands rather than recommending a donation to a relief agency. And if you want to create your own scholarship program and choose the recipients

(something you can't do with either a DAF or by donating through your alma mater's scholarship fund), a private foundation is your vehicle of choice.

To advance their charitable purpose, private foundations can even function like banks or private investors. Let's say you'd like to extend credit to a local bakery employing homeless people or make a low-interest loan to a local theatre company to upgrade their stage. You can use a private foundation to make Program-Related Investments (PRIs)—loans, loan guarantees, and equity investments, which provides valuable support while getting a return on your investment, either through repayment or return on equity.

If you would like to take a "hands-on" approach to giving back, you can use the funds in your foundation to run your own charitable programs and take on activities that no nonprofit organizations are doing: Provide highly durable soccer balls to kids in war-torn countries, hire professional musicians to give lessons in a public school that lost its arts programming, or purchase business attire and pay for the removal of gang tattoos to help paroled prisoners rejoin the workforce. You can even run a winter coat exchange without setting up a separate nonprofit.

If you are contemplating a large grant (for example, to build a wing of a local hospital), you may want to obtain a legally binding agreement that ensures the funds will be used according to your wishes. Foundations can establish and enforce agreements with grant recipients setting forth the purpose, terms, and conditions of a donation, with subsequent payments often tied to specific deliverables or benchmarks of progress. DAFs typically don't offer the ability to create customized grant agreements.

Perhaps the most important advantage of a private foundation is that it is not a binding choice. If you establish a DAF and it turns out not to have been the right choice, you may be stuck with it. DAF sponsors typically have rules against gifting assets to a private foundation. However, if you establish a private foundation and your needs change or you're undecided about your choice, you can easily convert a private foundation to a DAF.

Running your own foundation can be one of life's most rewarding experiences. And with the advent of services that ease the administrative burdens and shoulder all the legal, accounting, and compliance issues usually associated with private foundations, you can focus on the deeply satisfying part of their philanthropy—changing people's lives for the better.

ALTHOUGH DAFS AND PRIVATE FOUNDATIONS ARE BOTH EFFECTIVE CHARITABLE VEHICLES, THEY OFFER DIFFERENT LEVELS OF CONTROL, AUTHORITY, AND PHILANTHROPIC VERSATILITY.



HAVE A QUESTION?

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