

SHOULD YOU START YOUR OWN FOUNDATION?

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Non Profit Organization



Establishing a private foundation can amplify your contributions to the causes important to you, while also providing control over how donations are made and used. A foundation can also secure your legacy and can be incorporated into your estate plan.

What is a Private Foundation? | Generally, private foundations are charitable organizations that make grants to other charities. Foundations must obtain approval from the Internal Revenue Service (IRS) before they can begin accepting tax-deductible contributions or providing funding to outside charities.

Advantages to Starting a Private Foundation | If you are passionate about a specific cause—or philanthropy in general—starting a foundation can be a great way to give back to the community and holds the potential for greater effect than donating directly to other charitable organizations. Advantages include:

- **Sheltered income:** You will need trustees when setting up a foundation (and you can serve as one of them).

Income received from foundation investments and overseen by trustees is exempt from most taxes, although there is an excise tax.

- **Compensation:** You can be paid for services offered to the foundation, as long as your compensation level is within reason. Family members that are involved with the foundation can also be paid a reasonable salary, stipend or honorarium.
- **Tax deductions:** Personal contributions to your private foundation are tax-deductible.
- **Tax benefits for appreciated stock donations:** Property and assets other than money can be contributed to the foundation.

When donating appreciated assets, such as stocks, the donor does not realize capital gains on the transfer. Better yet, if you donate stocks to your foundation, you might also be able to claim a charitable deduction on your personal tax return for their appreciated market value.

- **Estate planning:** Assets transferred to a family foundation don't typically create any estate tax implications.

Incorporating a foundation into your long-term plan can be a smart way to maximize your legacy.

Creating a foundation and making grants that help others can also generate goodwill in your community, with the potential for your family members to share in the credit that arises from charitable responsibilities.

Disadvantages to Starting a Private Foundation | Starting a foundation comes with clear benefits, but there are also drawbacks. First, it requires time and money commitments right out of the gate. Additionally, given the specific requirements to obtain recognition from the IRS, you would likely need the help of an accountant that specializes in creating foundations, which would add to upfront costs.

Other obligations worth considering include:

- **Recordkeeping:** Even family foundations need to hold formal meetings and record proper minutes. All foundation records will need to be organized and up to date.
- **Regulations:** Private foundations are bound by a set of regulatory requirements; for example, foundations must distribute at least 5% of their net investment assets to charities every year, usually in the form of grants. Private foundations also often face greater regulatory scrutiny than public charities.
- **Reporting:** Foundations must make sure they meet annual reporting requirements to the IRS (Form 990), as well as state-level responsibilities.
- **Deduction limits:** You can deduct your donations to your foundation, but the limit on personal deductions is lower for private foundations than for public charities.
- **Property deduction limits:** Donations of stocks can be deducted at fair market value, but other property is subject to complex valuation requirements.

As you decide whether to start a foundation, consider whether the benefits to the community, your family, and yourself outweigh the increased obligations and expenses associated with the endeavor.

For more information, please call **407.585.1160**