

Ten reasons people choose to give through community foundations

one

We are a **local organization** with roots in the community.

two

Our professional staff has knowledge of **community issues** and needs.

three

We provide highly **personalized service** tailored to each individual's charitable and financial interests.

four

Our funds help people **invest in the causes** they care about most.

five

We accept a wide **variety of assets**, and can facilitate even the most complex forms of giving.

six

We can partner with **professional advisors** to create highly effective approaches to charitable giving.

seven

We offer maximum **tax advantage** for most gifts under federal law.

eight

We **multiply the impact** of gift dollars by pooling them with other gifts and grants.

nine

We build **endowment funds** that benefit the community forever and help create personal legacies.

ten

We can act as a **community leader**, convening agencies and coordinating resources to create positive change.

Donor Advised Funds: An Alternative to Private Foundations

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To give or not to give? That is only part of the question. Once a philanthropic desire is established, prospective donors are faced with the wide variety of charitable giving vehicles available to them. Though outright gifts to charity will never lose their appeal, charitable giving has evolved into many other forms — each tailored to meet particular donor's needs.

One charitable giving vehicle that has gained in popularity in recent years is the private foundation (a private, nonprofit grant-making organization that usually receives the majority of its funding from one family). Private foundations are popular charitable giving vehicles with people who are active philanthropists. Specifically, a donor can establish a private foundation, contribute property to it and receive an income tax charitable deduction for the year in which the contribution is made. The donor (as foundation manager) can then make investment decisions in connection with the donated property and can then decide to make subse-

quent grants from foundation funds to the public charities of their choice. Private foundations also allow donors to involve family members in the investment and grant-making process. There are, however, significant costs and administrative burdens associated with private foundations. For this reason, donors should consider the donor advised fund as an alternative to the private foundation.

What is a Donor Advised Fund?

A donor advised fund is a segregated fund owned and controlled by a non-profit, sponsoring organization that allows a donor to the fund to act in an advisory capacity with regard to investment and grant-making decisions. In other words, donors can make contributions to the fund and receive an income tax charitable deduction for the year in which the contribution is made. The donor retains the right to make recommendations regarding (1) how the contribution is invested and (2)

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communityWORKS

A new opportunity to make a difference!

Help build the Communityworks Endowment Fund to address the following issues in our area:

Child Care

Workforce Development

Land Use

Triple your gift!

For every dollar raised (up to \$25,000) between now and June 30, 2005, for the Communityworks Endowment, Decatur will receive two dollars from the Grand Victoria Foundation.

Let's grow now!

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the identity of the public charities that receive grants out of the contribution and the timing and amount of such grants.

Donor Advised Funds vs. Private Foundations

Donor advised funds have many of the advantages of private foundations, but without many of the costs and administrative burdens. Clearly, both vehicles enable a donor to receive an immediate charitable deduction while retaining a varying degree of control over future investment and grant-making decisions. Some of the key differences are as follows:

1. Cost

A private foundation will generally require thousands of dollars to establish and thousands more to maintain and operate. Private foundations usually require the engagement of attorneys and accountants to review and prepare organizational documents and tax returns and to advise over the administration of the organization. Private foundations also involve a significant investment of the donor's (or their family's) time in making investment and grant-making decisions and in meeting the various administrative requirements associated

with private foundations.

On the other hand, there is generally little or no up-front cost to contribute to a donor advised fund. Additionally, when compared to a private foundation, there is generally very little paperwork involved in establishing an account with a donor advised fund and the ongoing administrative burden is significant less.

2. Income Tax Charitable Deduction

Contributors to both a private foundation and a donor advised fund are entitled to an income tax charitable deduction. However, the donor to a private foundation will generally be subject to lower percentage limitations on the charitable income tax deduction and, depending upon the type of property contributed, may be limited to using the cost basis of the property — and not fair market value — in calculating the deduction. By contrast, a donation to a donor advised fund is treated in the same way as a donation to a public charity. Therefore the donor's charitable deduction will be subject to the higher percentage limits applicable to public charity donations and, in most cases, the deduction generally will

be based on the property's fair market value.

3. Control Over Distributions and Investment Decisions

Contributors to a private foundation can retain complete control over the foundation's investment and grant-making decisions. Contributors to a donor advised fund merely retain the right to make recommendations regarding the investment and grant-making decisions for the contributions. Generally, contributors to donor advised funds are given different investment alternatives from which to choose. Similarly, contributors to donor advised funds are permitted to make recommendations regarding the grants from the fund to charity. It is important to note that, while the fund will usually follow the contributor's recommendations, it is not required to do so. In fact, there have been instances where the fund has refused to follow a contributor's recommendations (due to differences in charitable objectives, investment philosophies, etc.). Therefore, contributors should research a fund's reputation in this area before

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making a contribution.

4. Excise Taxes

A donor advised fund is treated like a public charity and is exempt from tax. A private foundation is not entirely tax-exempt in that it is subject to a 1% or 2% federal excise tax on net investment income.

5. Distribution Rules

IRS rules require that a private foundation make minimum annual distributions of 5% of its net investment assets to charity. There are generally no annual distribution requirements associated with a specific donor's account with a donor advised fund, although the fund may require a distribution to be made from a particular donor's account in the relatively unlikely event that the fund's total distributions (for all donors) do not meet minimum requirements.

6. Recordkeeping and Tax Compliance

A contributor to a donor advised fund is not responsible for tax reporting or recordkeeping with respect to the fund's investments or grant-making process. Conversely, a private foundation must maintain detailed records of all expenditures and distributions and is required to

file annual tax returns for both federal and state income tax purposes, which must be made available for public inspection. Some states may also require that the foundation make certain filings with the local attorney general's office.

7. Restrictions on Investments and Contributions

Many donor advised funds limit contributions to cash or marketable securities. Private foundations may be more flexible in terms of the types of property that may be contributed. Nonetheless, IRS rules prohibit a private foundation from making investments that are so risky as to jeopardize the foundation's tax-exempt status. In addition, certain investments by a foundation may result in onerous excise tax liabilities.

8. Self-Dealing Rules

A private foundation is subject to special self-dealing rules that prohibit certain transactions between the foundation and certain "disqualified persons." Violations of these rules may cause the foundation and the self-dealer to pay a penalty tax and, in severe cases, may cause the foundation to lose tax-exempt

status. Ensuring that these rules are not violated can be costly and administratively burdensome due to the wide range of transactions they cover and the broad definition of "disqualified persons."

Conclusion

A donor advised fund may be an attractive alternative to a private foundation. Generally, a private foundation may still be the most appropriate vehicle for active philanthropists (donors and their families who want complete control over and want to be actively involved in the investment and grant-making process) despite its cost and administrative burdens. However, a donor advised fund may be a more efficient vehicle for donors who will be satisfied with serving in an "advisory" role in connection with investment and grant-making decisions without the added expense and managerial responsibility.

*You can start
a donor advised fund in
The Community Foundation
of Decatur/Macon County.*

Do more than just make a will. Do something great.

Do something for what you believe in.

Leave your legacy by remembering your favorite nonprofit organizations in your will or estate plan. Every dollar you leave behind benefits the Decatur area...helping make a difference in the lives of tomorrow.

Do something for your community.

Every dollar you leave to a local organization benefits your community...helping make life better for family, friends and neighbors.

Do something soon.

If you don't have a will, get one. If you do, think about including your favorite nonprofit groups or religious organizations. For more information, call your financial or legal advisor today.

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