

Should You Establish A Foundation?

It's Your Money
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A trip to Israel changed your life and you want to share the experience. Every year you would like to provide the same opportunity to a small group of high school seniors who exhibit leadership potential. The students will be hosted by your friends, a retired pastor and his wife.

To which charitable organization could you make a tax-deductible gift that would accomplish these purposes? I can't think of one, can you?

But your private foundation (PF) comes to the rescue! Gifts to your PF are tax-deductible. Your foundation can fund the entire project plus pay your clergy friend a handsome fee.

More blessed to give...

The United States is a generous country. The UK Charities Aid Foundation claims that Americans rank first in the world in philanthropy, contributing an amount equal to 1.67% of the country's gross domestic product. The United Kingdom is a distant second at .73% of GDP.

The Chronicle of Philanthropy reports that Americans gave away more than \$300 billion in 2009—the third consecutive year this milestone has been reached. Individuals accounted for 75% of total contributions in 2009, foundations were second at 13%, and corporations third at just 4%.

What is a Private Foundation?

Most people make personal gifts directly to their church or the Red Cross. Gifts to such organizations (the IRS calls them 501(c) (3) organizations) are tax-deductible. If you follow proper procedure, your PF can itself become a 501(c) (3) tax-exempt organization. So gifts to your PF are tax deductible, and your PF doesn't pay tax on most of its income.

Every year, the grant-making committee of your PF will sit down to determine which organizations or projects they wish to assist. Hopefully, your PF will grow from income on its investments. But money cannot simply accumulate in a PF. Generally speaking, every year 5% of the value of the fund must be distributed according to its stated charitable purpose(s).

During your life, or at death, you can make tax-deductible gifts of cash, securities, property and other assets to your PF. In fact, anyone can make tax-deductible gifts to your PF.

Three reasons for having a PF:

1. Private foundations provide the greatest control of any charitable giving vehicle. You decide which charities to support, who sits on the board and how your donated funds are invested.
2. Private foundations are a great way to involve your family in philanthropy. Most PFs outlive the life of their founder. Do you like the idea of your children or grandchildren gathering annually to decide where to give the money generated by your PF?
3. You can take an immediate tax deduction for assets you contribute to the foundation, even if the funds are not distributed until a later date. This is especially beneficial in high-income years. Certain appreciated assets can be deducted at market value and sold by the PF without incurring an income tax. Consult a qualified tax professional for details.

Are there other alternatives?

Donor-advised funds are probably the best alternative. Once the domain of the community foundation, these have now been established by many religious denominations, diocese and other organizations. Even several mutual fund houses including Fidelity and Vanguard have established donor-advised funds.

Simply stated, your gift to the donor-advised fund is tax-deductible. You have a right to make a non-binding recommendation as to where your money eventually goes. While you have no start-up costs or administrative hassles, you probably have lost the ability to create a program similar to the one described at the beginning of this article.

How do I set up a PF?

Consult qualified legal and accounting experts to establish your foundation. Give me a call if you need referrals. Expect to pay less than \$10,000 to form a foundation and secure 501(c) (3) status. Five years ago I would have recommended \$2 to \$3 million as a starting point for a PF. However, several vendors specializing in this field have automated tax-reporting and other procedures to the point where \$250,000 has become the entry level. Some of them claim they can have your PF up and running in just three business days.

Please use caution. Certain property could better be contributed to a charitable remainder trust or donor-advised fund than a PF. Other PF pitfalls are contributing debt-encumbered property and “doing business” (IRS calls it “self-dealing”) with your PF.

Verlyn De Wit helps successful dairy producers make smart decisions about their money. He can be reached toll-free at 1-888-468-1728 by email at vdewit@sammonsrep.com or “snail-mail” at 1270 Eastside Dr., Sioux Center, IA 51250. Securities offered through Sammons Securities Co., LLC. Member FINRA and SIPC. 4261 Park Road, Ann Arbor, MI 48103

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