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Should You Found a Foundation?

Charitable Giving Tool No Longer Just for Ultra-Wealthy

There was a time in this country when charitable foundations set up by wealthy families and corporations were responsible for building hospitals, funding scientific research, educating the underprivileged, feeding the hungry, and an uncountable number of other good works.

These days, such activities are no longer the province of the truly wealthy. Small private foundations are growing at a rate of about six per day, and those with less than $1 million in assets make up about 60% of all charitable foundations.[1]

If you have a hard time keeping track of receipts from your donations until tax time, setting up a private foundation is probably not for you. But if you want to control how and where your donations are used, create an entity that has the potential to last for generations, and unite family members behind a worthy cause — and don't mind some fairly strict paperwork requirements — this type of organization might be worth considering.

Giving by the Numbers

$295 billion	U.S. charitable giving in 2006
$223 billion	Amount donated by individuals
$37 billion	U.S. foundation grantmaking in 2006
$13 billion	Amount donated by corporations and corporate foundations
$12 billion	Increase in 2006 charitable giving compared with 2005
$1.9 billion	2006 installment of Warren Buffett's 20-year pledge to donate $30 billion
1.4 million	Number of religious and charitable organizations in the United States
65%	Percentage of U.S. households with annual incomes under $100,000 that give to charity

Source: Giving USA Foundation, 2007

Found: Charitable Muscle

A private foundation is a tax-exempt entity that exists for the purpose of granting money to benefit others. A foundation's focus may be charitable, educational, religious, or scientific. But in order to qualify for the tax benefits, the organization must be recognized as a charitable foundation by the IRS. Each year, the foundation is required to distribute an amount equal to about 5% of its total assets to public charities.

Donations in excess of this minimum can be carried forward to future tax years.

Although there are significant setup costs and a considerable amount of work involved in administering grants and complying with state and federal regulations, there are potential benefits to running a foundation, as well.

- Donations to the foundation are income-tax-deductible up to 30% of adjusted gross income. Donating highly appreciated assets can help avoid capital gains taxes.
- Foundation assets can grow income-tax-free, but some expenditures may be subject to an excise tax.
- The founders have the ability to change the foundation's goals and focus as their own views and priorities evolve. Founders can retain control of how foundation assets are spent and can pass this control to their chosen heirs.
- A family foundation can hire family members to run the organization at a reasonable compensation. Theoretically, a foundation can exist in perpetuity as long as it meets regulatory requirements and has assets to distribute.

One caveat: Tax benefits alone are probably not a sufficient reason to set up a private foundation. This type of organization is most appropriate for people who aspire to benefit society and are looking for a way to exercise maximum control over their efforts and assets. For more information on how insurance and other financial solutions can fit into your overall financial plan, contact **Jason M. Woodward, J.D.** today at (603) 264-7550 or financialattorney@gmail.com.

1) *Journal of Accountancy*, April 2008