

## The Benefits of Creating Your Own Private Foundation

What happens when you give appreciated qualified securities (usually marketable securities) to a private foundation you've created? 1) You can generally deduct a percentage of the fair market value of your gift as a charitable deduction on your income tax return -- carrying any unused portion forward for up to five years, and 2) neither you nor the private foundation pays capital gains tax.

You can readily see that these are important advantages. Here's an overview of other benefits of and requirements for creating your own foundation to help you determine whether it would be advantageous for you.

### Foundation Benefits

Some restrictions may apply and a private foundation has the added burden of having to maintain records and meet IRS and state filing requirements. But creating a private foundation may well be worth the bother because it offers several benefits. Foundations allow you to:

***Carry out your own charitable objectives.*** Perhaps you haven't found a public charity that can address your specific charitable objectives. By creating your own foundation, you can set guidelines for it to carry out.

***Take a big tax deduction.*** Suppose you anticipate having an unusually large amount of income this year that you would like to offset with a large charitable deduction. But you don't want your favorite charity to receive the entire donation in a single year. The solution is to make the large gift this year to your private foundation and obtain a current income tax charitable deduction. The foundation can invest the funds and spread the contribution to charity over the next three or four years.

***Your foundation gets 100 cents on the dollar.*** Your estate will include some assets that can be subjected to both income and estate taxes. These include:

- Profit-sharing plans,
- Pension plans,
- Individual retirement accounts,
- Tax-deferred annuities,
- Deferred compensation, and
- Deferred commissions.

In some situations, your heirs may net only 18% to 20% of the value of these types of assets after all taxes are paid. But you can take an estate tax charitable deduction if you designate your private foundation as the beneficiary or the recipient of these assets -- and the foundation will escape income tax on the property. As a result, your foundation will have 100 cents on the dollar to use for charitable purposes.

***Teach your children the value of giving.*** You can provide that your children run your private foundation after your death or after you relinquish control. Because the funds in your foundation cannot be diverted

to noncharitable uses, your children will learn the importance of giving and the different purposes charities in the community serve. A private foundation can last in perpetuity as long as it has funds. If you want people to remember your family for its generosity, a private foundation named after you may accomplish that goal.

### **Consider the Benefits**

Now is a good time to consider the benefits of creating your own private foundation. Our professionals will be glad to answer your questions and help you decide whether this is a good idea for you.

### **What Is a Private Foundation?**

Generally, a private foundation is any tax-exempt entity that the Internal Revenue Code does not define as a public charity. Among the many requirements governing foundations are these:

- The foundation must annually distribute to a public charity at least 5% of its net investment assets,
- The foundation is limited in its investments and ownership in a family business or other unrelated business, and
- The governing instrument must specifically bar self-dealing -- including leasing, lending, selling or other transactions -- between the foundation and you, your family, foundation managers and other disqualified persons.