



Insights on Foundations: Individual Philanthropy, the Family Office, & the Foundation

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Meet the Presenters



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Agenda

- Individual Philanthropic Considerations
- How Tax Strategies Fit In
- Case Studies
- Family Office & Foundation Coordination





Individual Philanthropic Considerations

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Think of giving not as a duty, but as a privilege.

– John D. Rockefeller Jr.

Philanthropic Goals & Motivations

- What is the individual/family approach?
 - Consider mission & values
 - Consider time horizon: sunsetting vs. perpetual
- A mission statement that identifies values/sectors that are most important can be helpful
 - Consider generational differences in goals & focus areas
- How will philanthropy be funded?

Philanthropic Goals & Motivations

- Is name recognition important?
 - The Smith Family Fund vs. The Smith Family Foundation
 - Privacy concerns for the individual donors
- Who should handle administration of the giving?
 - Family member or outside director
 - Is there interest in board service?
 - How to plan for generational transition

Philanthropic Goals & Motivations

- Vision for Giving Opportunities
 - Grants to individuals, foreign charities, non-charitable organizations
 - Consistency in giving
- Sheltering income/double capital gains benefit

Philanthropic Goals & Motivations

- Private Foundation prohibited transactions & self dealing
 - Complex set of rules
 - Require careful oversight
 - Penalties can attach to individual board members if excise taxes apply
 - Regulatory requirements & recordkeeping requirements
 - Trusted Advisors should be at the table

Philanthropic Goals & Motivations

- Donor-Advised Funds may be a better fit for some donors
 - Smaller foundations can transition to DAFs
 - Understand individual motivations, goals, & appetite for oversight
 - Potential increased tax benefits

Private Foundation vs. DAF

	Control	
	Private Foundation	DAF
Legal title to contributed funds	Board of Directors/Trustees established by founder/s	Sponsoring Organization
Fiduciary responsibility for funds	Foundation Board of Directors/Trustees	Sponsoring Organization
Grants and allocations	Foundation has full control to authorize and direct distributions	Donor makes recommendations/advises
Investments	Foundation has full control	Donor has advisory privileges or is often permitted to select from a portfolio managed by the sponsoring organization

Private Foundation vs. DAF

Grantmaking		
	Private Foundation	DAF
Grantmaking	<p>May make grants to recognized 501(c)(3) organizations and, after meeting additional IRS requirements, to individuals through scholarships, fellowships, and direct assistance to those in need; to international organizations; and to other nonprofit and for-profit entities</p>	<p>Giving is generally limited by the sponsoring organization to recognized 501(c)(3) public charities</p>
Direct program operations	<p>May conduct and participate in charitable programs and may provide direct charitable services</p>	<p>Generally not permitted</p>

Private Foundation vs. DAF

	Annual Compliance	
	Private Foundation	DAF
Required minimum distributions for charitable purposes	5% of average net assets	None
Excise Tax	1.39% of net investment income	None
Reporting	Tax Return - Form 990-PF	None for donor; sponsoring organization files Form 990 reporting all DAFs and funds it holds
Disclosure of assets, contributors and grants	Required on Form 990-PF	Not required



How Tax Strategies Fit In

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If you want to do something for your children & show how much you love them, the single best thing—by far—is to support organizations that will create a better world for them & their children.

– Michael Bloomberg

Vehicles for Philanthropy

- Cash/Non-Cash Gifts to a Public Charity
- Gifts to a Donor-Advised Fund (DAF)
- Private Family Foundation
- Charitable Remainder Trusts
 - CRATS
 - CRUTS

Tax & Estate Planning Considerations

- Funding Strategies
 - Cash vs. non-cash
 - Business interests or other non-traditional assets
- Timing of funding – lifetime gifts vs. estate gifts
 - Naming a charity as the beneficiary of an IRA
- Charitable Remainder Trust allows income stream during donor/beneficiary's lifetime

Charitable Contribution Deduction

Tax Deductibility of Contributions		
	Private Foundation	DAF/Public Charity
Cash	Up to maximum of 30% of Adjusted Gross Income (AGI)	Up to maximum of 60% of AGI
Publicly Traded Securities	Up to 20% of AGI	Up to 30% of AGI
Closely-held stock, real property, and most other tangible items	Up to 20% of AGI (at cost basis)	Up to 30% of AGI (at fair market value)

Tax Deductibility for Gifts

- Assume AGI of \$300,000
- What is the charitable deduction amount?

	Public Charity	DAF	Family Foundation
\$250,000 Cash Gift	180,000	180,000	90,000
\$250,000 Non-Cash Gift (Publicly Traded Securities)	90,000	90,000	60,000

Tax Impact for Gifts

- Assume AGI of \$1,000,000

	Public Charity	DAF	Family Foundation
\$250,000 Cash Gift	250,000	250,000	250,000

Tax & Estate Planning Considerations

- Estate Planning Gifts
 - In 2023 the estate & gift tax exemption is \$12.92M
 - Unlimited charitable deduction for gifts made from an estate to charities
 - Philanthropy can play a key role in minimizing estate taxes for heirs – but make sure the charitable intent is there

To give away money is an easy matter & in any man's power. But to decide to whom to give it & how large & when, & for what purpose & how, is neither in every man's power nor an easy matter.

– Aristotle



Case Studies

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Case Studies

- Two high-net worth individuals
 - Charitable intent in both cases
 - Tax mitigation is a motivator
 - Different types of assets

Case Study One

- Donor experienced a personal windfall due to sale of business
 - Concern with mitigating income tax
- Personal/community connections – passion aligned with donor's
- Community focus on philanthropy – drives synergy around accomplishing goals
- Alignment with business ventures
- Established Private Family Foundation
 - Primarily with cash donations

Case Study One

- \$40,000,000 AGI
 - Initial funding of Family Foundation of \$500,000
 - Additional large gifts to be made in subsequent tax years
 - Estate planning comes into play as well

Case Study Two

- Donor looking to divest of business assets
 - Tax mitigation
 - Philanthropy through Private Foundation
- Considered gift of business interest
 - UBI concerns
 - Excess Business Holdings unless 100% of business donated
- Donor chose to make a gift to a DAF

Case Study Two

- Real property (building) valued at \$12,000,000
 - Selling the building/donating proceeds
 - Donating the building outright to a charity
- Multiple family members impacted by tax savings
- Amount received by the charity was a consideration

Case Study Two

	Potential Gift Options					
	Family		Taxes		Charity	
No charitable gift	\$	9,660,000	\$	2,340,000	\$	-
Sell/Donate Proceeds	\$	3,164,000	\$	(823,000)	\$	9,660,000
Donate 100% of Property Interest	\$	3,930,000	\$	(3,930,000)	\$	12,000,000

Writing a check separates a commitment from a conversation.

– Warren Buffett



Family Office Considerations

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Family Office & Foundation Coordination

- Consider when a Family Office or Foundation may be the best fit
 - Does it make sense to have both?
 - Hybrid approaches can offer flexibility for philanthropy & for-profit activities that are complimentary
- Financial Interests or Philanthropic Legacy
- Setting holistic goals across entities
- Can allow cost sharing & investment synergies

Family Office & Foundation Coordination

- Proper design & planning can allow cost-sharing & maintain compliance with self-dealing rules for Foundations
 - Payments are made directly to shared employees or third-party vendors & not to the disqualified persons
 - Compensation is reasonable & for personal services
 - Payments for shared space or office equipment are proportionate to usage & records are kept
 - All actions are exclusively to carry out the foundation's exempt purpose under §501(c)(3)

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