



CHARITABLE GIVING THROUGH COMMUNITY FOUNDATIONS

Charitably inclined people tend to think of giving in one of two major ways: donate directly to their favorite charities or, if they are wealthy enough, create their own private or family foundation. A third approach, however, can sometimes offer the best of both worlds: community foundations.

Giving directly to your favorite charities is typically the easiest way to make a charitable contribution, and often the most appropriate method. The problem is, once you've donated the money, you've given up control of it. The charity may not spend the money the way you intended, the organization may become poorly managed, or it even may become insolvent. If you want to leave an endowment, the charity may not be capable of managing it well. Also, let's say you want to donate a piece of highly appreciated real estate, but you don't want to sell it before donating it (to avoid capital gains taxes). This can make it difficult if you want to benefit more than a single charity with the property.

Private and family foundations provide the ultimate in control, along with the ability to involve family members. But it comes at a cost. Set-up and maintenance fees are high, at least five percent of the market value of the foundation's assets must be donated each year, an excise tax of one to two percent is levied on net investment income and the tax advantages are not as great as with public donations.

A community foundation may provide the solution if you want some control without the disadvantages of the private foundation. A community foundation builds an endowment through the contributions of individuals, businesses and foundations. Income from the endowment in turn supports specific charities. This means donors build a permanent legacy of contributions with a long-term impact.

There are over 540 community foundations in the United States, according to the Council of Foundations. They are governed by local residents, and generally contribute to local needs, though donors can designate that their money go anywhere in the world.

You can work with a community foundation in a number of ways. You can designate certain charities through the foundation to receive income from your donations. This provides investment

and management economies of scale the designated charities may not have (a small homeless shelter, for example, probably couldn't manage a large endowment). Also, the foundation has the power to redirect the funds after the donor's death if the designated charity or charities no longer meet the donor's original intent.

Another approach is to designate a field of interest, such as the arts, education or health, with the foundation directing the funds to the most appropriate charities. Or you can make donations with no strings attached, allowing the community foundation to make the decision where your contribution income will go.

You can set up what in some ways resembles a mini private foundation by establishing a donor-advised fund or funds in your name within the community foundation. While you can't dictate to the foundation how the funds will be distributed, you can "advise" them, which usually will be given significant weight. You can involve family members in the donor-advised fund, as well, as a way of teaching family charitable values.

One of the advantages of a community foundation compared with a private foundation is that it can handle small contributions (although donor-advised fund typically require a minimum initial contribution of \$5,000 to \$25,000). You can contribute cash, real estate, appreciated securities such as stock, or other assets. You also can arrange to have a community foundation receive life insurance proceeds from a policy on your life.

Another advantage is the tax deduction. With a community foundation, you can deduct up to 50 percent of your gross income for a cash gift and 30 percent of your long-term capital gains on appreciated property (at fair market value). The maximums for gifts to a private foundation are 30 percent for cash and 20 percent of appreciated property.

In addition, working with a community foundation gives you access to its professional advisors, who also will work with your financial planner, estate planning attorney and accountant to design an effective charitable giving strategy.

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