

Philanthropic Planning for Clients: Private Foundations

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The Advisor SERIES PART 3

Thriving with Tax-Wise Giving

**PRIVATE FOUNDATIONS
& DONOR-ADVISED FUNDS**



FOUNDATIONSOURCE

Your Partner in Giving

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Who We Are

FOUNDATION SOURCE is the nation's largest provider of management solutions for private foundations.

- Founded in 2000
- Headquartered in Connecticut
- National footprint
- **2,000+** private foundation clients
- ~200 employees
- **98%** client satisfaction
- Administers **\$21.5+ billion** in foundation assets
- **8,000+** users of Foundation Source Online®
- Facilitated **420,000+ grants** totaling more than **\$10 billion** in charitable aid



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Getting Started with Client Goals

YOUR WHY AND YOUR HOW

Strategies

COMPARING PRIVATE FOUNDATIONS
AND DONOR ADVISED FUNDS

COMBINING VEHICLES

ADDITIONAL STRATEGIES TO CONSIDER

Conclusion

Agenda

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Getting Started with Client Goals

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GETTING STARTED WITH CLIENT GOALS

Donors make the most sustained and successful contributions when they focus on issues that connect directly to their motivations and convictions.

Exploring
Charitable
Options

Identifying
Motivations



Deciding What
You Care About



What does
your client
want to
achieve?

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What Does Your Client Care About?



BIG CHALLENGES:

Poverty, disease, racial equity, education, climate change, etc.

SPECIFIC CHALLENGES:

Job retraining, preventative care for pregnant women, early childhood learning centers, water conservation, etc.

POPULATIONS:

Children, the elderly, refugees, ethnic groups, animals, etc.

PLACES:

A country, region, city, neighborhood, etc.

INSTITUTIONS:

Museums, orchestras, universities, advocacy groups, etc.

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Exploring Charitable Options



As individuals become more deliberate in their approach to philanthropy, the use of a planned giving vehicle provides many potential advantages. These include:

CHARITABLE REMAINDER TRUST

CHARITABLE LEAD TRUST

DONOR-ADVISED FUND

PRIVATE FOUNDATION

The last two are by far the most popular and provide the greatest flexibility, which is what we'll focus on today.

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Private Foundations and DAFs

SIMILARITIES AND
CONSIDERATIONS



Private Foundation Misperceptions

MYTH

1. You need to allocate \$3-5 million to afford a foundation
2. Private foundations are difficult and expensive to set up
3. Private foundations are a burden to operate
4. Foundations require investment in staff and infrastructure



REALITY

1. 67% of all foundations have less than \$1 million in assets
2. We can form one in less than a week for significantly less than an a la carte approach
3. Foundation Source handles all the details, so funders can enjoy their philanthropy
4. With Foundation Source there's no need for staff and infrastructure

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Similarities of PFs and DAFs



Some of the underlying differentiators to these giving vehicles are the same.

Contributions generate a **CURRENT-YEAR INCOME-TAX DEDUCTION** for charitable gifts that are made in the future

CAN AVOID CAPITAL GAINS TAXES on appreciated securities that are donated to the private foundation or donor-advised fund

EXEMPTION FROM GIFT AND ESTATE TAXES on donated assets

POTENTIAL TAX-ADVANTAGED ASSET GROWTH

CONTRIBUTIONS to a DAF and private foundation
ARE IRREVOCABLE

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Structure

A donor's vision for his/her philanthropic goals often defines which giving vehicle is best suited for the purpose.

PF



AN ORGANIZATION:

An independent legal entity that is governed by an individual, family, or business

- Can be set up as a corporation or a trust
- Has its own tax ID number
- Files for tax-exempt status with the IRS
- 66% of all private foundations have assets of less than \$1 million (IRS data)

AN ACCOUNT:

A giving account that is housed within and governed by a public charity.

MINIMUM INITIAL CONTRIBUTION:

\$5,000 - \$25,000
(varies by organization)

DAF



Control

When control is important – due to the behavioral makeup of the individual or intended philanthropic outcomes – this can also help inform the decision.

PF



- Donor determines governance structure and bylaws
- Donor can govern the foundation alone or can select family members and others to serve on the board.
- Donor maintains complete control over grantmaking and investment decisions
- Can exist in perpetuity

DAF



- Donor recommends grant recipients to the sponsoring organization's governing board
- Donor recommends investment selections to the governing board
- Each named “advisor” can act independently to recommend gifts
- Limits on number of successor advisors

Differences in deductibility are rarely the deciding factor when choosing between these two giving vehicles.

Tax Treatments

- There is a five-year carry-forward for any contributions that exceed these limits.
- Donors can max out the deduction to a private foundation, then make additional tax-deductible contributions to a public charity up to the higher limit, which could include the individual's donor-advised fund.





	PF	DAF
CASH DONATIONS:	30% of AGI	60% of AGI
LONG-TERM APPRECIATED STOCK:	20% of AGI	30% of AGI
Generally deductible at:	FMV	FMV
OTHER LONG-TERM APPRECIATED ASSETS:	20% of AGI	30% of AGI
Generally deductible at:	Cost Basis	FMV

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Investments

May have an impact on the family's wealth preservation and transfer plans.

PF



- Can hold nearly any type of asset in the foundation:
 - Cash & mutual fund shares
 - Publicly traded bonds and securities
 - Private equity and closely held stock
 - Partnerships
 - Real estate
 - Tangible assets (art, jewelry, collectibles)
 - Stock options
 - Intangible personal property
- Donor works with existing financial advisor to manage the foundation's investments

DAF



- Typically, a standardized selection of mutual funds or limited menu of proprietary pooled investment options
- Donated assets often liquidated (unable to hold stock XYZ, alternative assets, tangible assets), which may incur additional transaction fees
- Some DAFs offer the flexibility of a separately managed investment account when over a certain size

Grantmaking

IRS rules dictate inherently different granting capabilities, so donors need to evaluate both short-term and enduring goals.

PF



- All types of nonprofits, including public charities
 - International grants
 - Grants to individuals for disaster relief/economic hardship
 - Scholarships, awards, prize programs
 - Direct charitable activities (coat drive/soup kitchen)
 - Program-related investments
 - Grants to for-profit entities when they support the foundation's mission
- Annual 5% minimum distribution requirement

DAF



- Primarily to 501(c)(3) public charities in the U.S.
- Primarily for “no frills” or routine financial support
- Limited, but growing ability to make international gifts
- No annual distribution requirement

Convertibility

**CLIENTS SHOULD
CHOOSE CAREFULLY:**
the decision of which
vehicle to set up cannot
always be undone.

PF



A PRIVATE FOUNDATION:
may grant all of its assets to
a donor-advised fund and
then shut down

DAF SPONSORS

have rules that make it
all but impossible for
a DAF to convert to a
private foundation

DAF



Why Your Clients Might Want a DAF



Grantmaking needs are simple and straightforward.

HAVE FEWER CHARITABLE DOLLARS for initial contribution

Give exclusively to **U.S. PUBLIC CHARITIES**

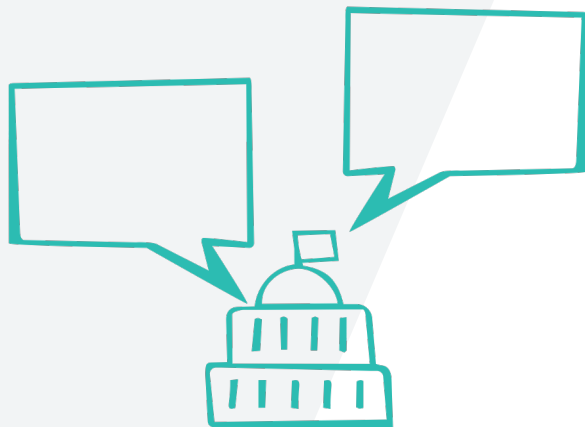
Don't care about **PERPETUITY** (i.e. pass through)

Want **COMPLETE ANONYMITY** for granting

Plan to fund primarily with **REAL ESTATE OR APPRECIATED PERSONAL PROPERTY DUE** to tax treatment of these assets

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One Other Note



There has been considerable discussion on **Capitol Hill** as to whether DAFs should be held to some of the same rules as private foundations.

Should individual DAF accounts have an **ANNUAL PAYOUT REQUIREMENT?**

Should **INCOME-TAX DEDUCTIBILITY** be the same for DAFs and private foundations?

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Why Your Clients Might Want a Foundation



They want access to the full capabilities allowed by the IRS to a private foundation.

FULL OWNERSHIP AND CONTROL over investment and grant decisions

Choose their **OWN BOARD AND COMPENSATE DIRECTORS**, if desired

DO MORE WITH THEIR PHILANTHROPY than grants to U.S. public charities

DONATE TANGIBLE ASSETS that won't be sold (e.g., art, antiques)

HAND DELIVER grant checks

CREATE GRANT AGREEMENTS for major gifts

PASS DOWN TO FUTURE GENERATIONS in perpetuity

HIRE STAFF, including family members

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Not Your Grandfather's Foundation

With the advent of full-service foundation management companies 20 years ago, having a **private foundation** is now as easy as having a DAF.

TRADITIONAL FOUNDATIONS

- Complicated and expensive to set up
- Time-consuming administration
- Complicated rules
- Cumbersome board member coordination
- Manual grant processing
- Complex regulatory environment

NEW MODEL FOUNDATIONS

Automated Back-Office Systems

Automated Tracking/Reporting

Real-Time Compliance Monitoring

Online Access for Donors & Advisors

Easy to Engage Family

Foundation Delivered in 3 DAYS



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Reasons to Have Both



Complete Anonymity in Giving



PRIVATE FOUNDATIONS MUST RECORD THEIR GRANTS

on their annual tax return, which must be available for public inspection.

DAF SPONSORING ORGANIZATIONS ARE NOT REQUIRED TO SHOW WHICH GRANTS are associated with which DAF accounts.

When making donations to a controversial or politically charged issue, the donor could grant funds from the foundation to the DAF and make anonymous grants from there. This strategy can also be used to **AVOID A FLOOD OF GRANT REQUESTS FROM ORGANIZATIONS** similar to the ones being supported.

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Avoid Mission Drift and Confusing the Charitable Community



Foundations often have **A DEFINED MISSION** that informs their grantmaking and the organizations they support

Some foundations, however, give board members a portion of funds to grant as individuals. When these grants are **OUTSIDE OF THE FOUNDATION'S MISSION AREA, IT CAN CAUSE CONFUSION** as to what the foundation actually stands for.

Instead, the foundation could **SET UP INDIVIDUAL DAFs** for board and family members that are used for these side projects.

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Assists in Strategic Deployment



A private foundation may be nearing the end of the year and still not have met its 5% minimum distribution requirement.

Rather than make a flurry of hastily considered grant decisions, or incur a penalty for missing the distribution requirement, the foundation can **GRANT THE OUTSTANDING AMOUNT TO HIS/HER DONOR-ADVISED FUND** to satisfy that requirement.

This gives the donor additional time to decide how best to use those charitable dollars.

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Donor Scenarios



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Having Both a PF and a DAF

GIVING BENEFITS

Donors get a complete toolkit for achieving philanthropic goals:

- PF can enter into grant agreements with the recipients
- PF allows donors to personally present grant checks
- DAFs let the donor make anonymous grants to competing organizations



FINANCIAL BENEFITS

Donors can maximize tax benefits and reduce fees

- “Stack” contributions to maximize deductibility
- Donate alternative assets to PF



SUSTAINABILITY BENEFITS

Donors Can “Future Proof” Their Giving

- DAFs allow limited advisor succession
- PFs can exist in perpetuity
- Convertibility is a one-way street



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Foundation Creation

New foundations **ESTABLISHED IN LESS THAN A WEEK**

PARTNER WITH ADVISORS on foundation creation

SETUP AS A DELAWARE CORPORATION

Includes **IRS FILING** for exempt status

Donors can **START MAKING GRANTS**
as soon as it's funded

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WE COMPLEMENT YOUR PRACTICE AND MEET CLIENTS' UNIQUE NEEDS

1

Foundation Expertise

Foundation Source has unparalleled foundation management expertise. We are a trusted partner **to family philanthropists and their key advisors**, guiding them every step of the way, as much or little as they like.

2

Tech-Enabled Solutions

We are building proprietary, best-in-class foundation management applications that are designed specifically **to facilitate family philanthropy.**

3

Flexible Solutions

Whether you're looking for consultative support or tech-enabled solutions—or a little bit of both—we engage with clients in a variety of ways to **meet them where they are, with the support they need.**

NOTE: *Foundation Source does not manage or custody assets.*

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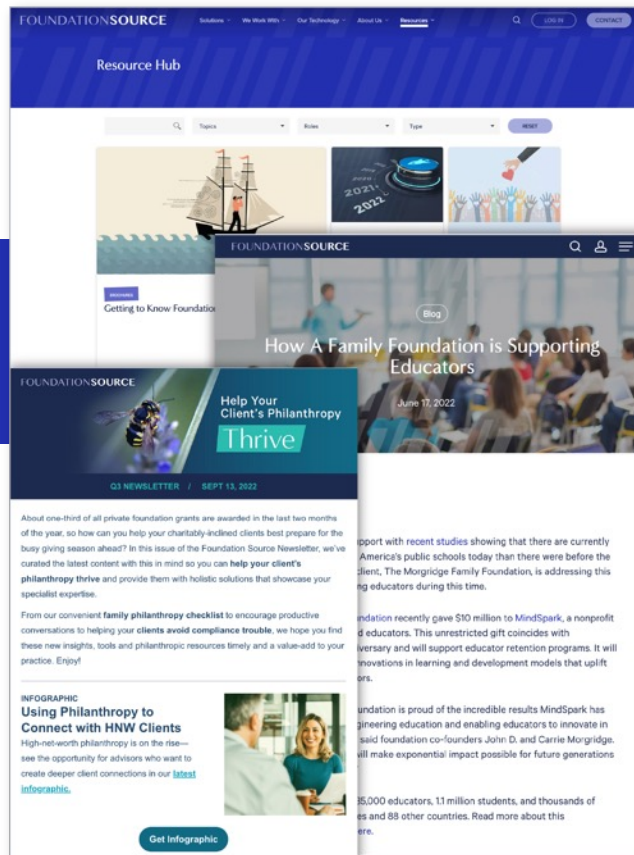
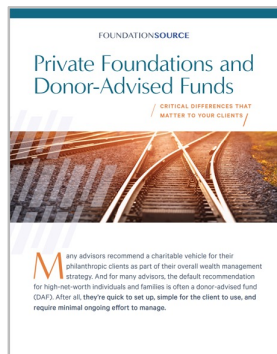
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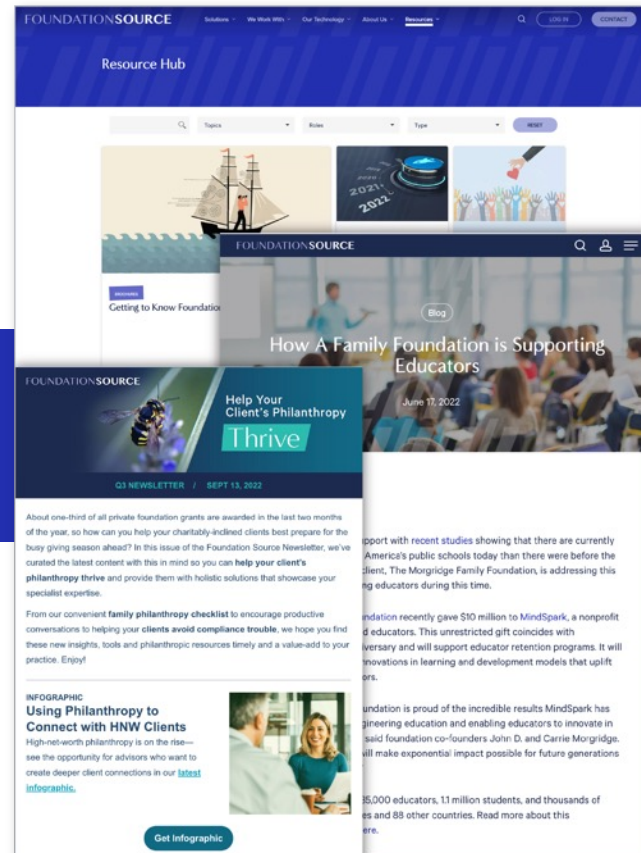
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QUESTIONS?



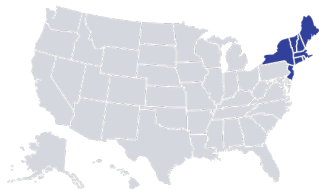
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THANK YOU!

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Up Next:

**How Advisors Are Growing Their HNW Tax Alpha
and Direct Indexing Business Today - Panel**
Thursday, July 11: 3:00 PM EST / 12:00 PM PST

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Symmetry Partners' investment approach seeks enhanced returns by overweighting assets that exhibit characteristics that tend to be in accordance with one or more "factors" identified in academic research as historically associated with higher returns. Please be advised that adding these factors may not ensure increased return over a market weighted investment and may lead to underperformance relative to the benchmark over the investor's time horizon. The factors Symmetry seeks to capture may change over time at its discretion. Currently, the major factors in equity markets used by Symmetry and some associated academic research are: the market risk premium (Sharpe, William F. "Capital Asset Prices: A Theory of Market Equilibrium under Conditions of Risk." The Journal of Finance, Vol. 19, No. 3 (Sept. 1964), 425-442.), value (Fama, Eugene and Ken French. "Common risk factors in the returns on stocks and bonds." Journal of Financial Economics, 33, (1993), 3-56.), small (Banz, Rolf W. "The Relationship Between Return and Market Value of Common Stocks." Journal of Financial Economics, 9 (1981), 3-18.), profitability (Novy-Marx, Robert. "The Other Side of Value: The Cross Profitability Premium." Journal of Financial Economics, 108(1), (2013), 1-28.), quality (Asness, Clifford S.; Andrea Frazzini; and Lasse H. Pedersen. "Quality Minus Junk." Working Paper.), momentum (Jegadeesh, Narasimhan and Sheridan Titman. "Returns to Buying Winners and Selling Losers: Implications for Stock Market Efficiency." The Journal of Finance, Vol. 48, No. 1, (March 1993), 65-91), and minimum volatility (Ang, Andrew, Robert J. Hodrick, Yuhang Xing and Xiaoyan Zhang. "The Cross-Section of Volatility and Expected Returns." The Journal of Finance, Vol. 61, No. 1 (Feb. 2006), pp. 259-299.) On the bond side, Symmetry primarily seeks to capture maturity and credit risk premiums (Ilmanen, Antti. Expected Returns: An Investor's Guide to Harvesting Market Rewards. WileyFinance, 2011, p157-158 and 183-185.).

Higher potential return generally involves greater risk, short term volatility is not uncommon when investing in various types of funds including but not limited to: sector, emerging markets, small and mid-cap funds. International investing involves special risks such as currency fluctuation, lower liquidity, political and economic uncertainties, and differences in accounting standards. Risks of foreign investing are generally intensified for investments in emerging markets. Risks for emerging markets include risks relating to the relatively smaller size and lesser liquidity of these markets, high inflation rates and adverse political developments. Risks for investing in international equity include foreign currency risk, as well as, fluctuation due to economic or political actions of foreign governments and/or less regulated or liquid markets. Risks for smaller companies include business risks, significant stock price fluctuation and illiquidity. Investing in real estate entails certain risks, including changes in: the economy, supply and demand, laws, tenant turnover, interest rates (including periods of high interest rates), availability of mortgage funds, operation expenses and cost of insurance. Some real estate investments offer limited liquidity options. Investing in higher-yielding, lower-rated bonds has a greater risk of price fluctuation and loss of principal income than U.S. government securities, such as U.S. Treasury bond and bills. Treasuries and government securities are guaranteed by the government for repayment of principal and interest if held to maturity. Investors should carefully assess the risks associated with an investment in the fund.

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Investing in commodities is often through futures trading, where the risk of loss in these contracts can be substantial. You and your advisor should carefully consider whether such trading is suitable depending on your financial situation.

Investments in commodities may have greater volatility than investments in traditional securities, particularly if the instruments involve leverage. The value of commodity-linked derivative instruments may be affected by charges in overall market movements, commodity index volatility, changes in interest rates, or factors affecting a particular industry or commodity, such as drought, floods, weather, livestock disease, embargoes, tariffs and international economic, political and regulatory developments. Use of leveraged commodity-linked derivatives creates the possibility for greater loss.

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