

PRIVATE FAMILY FOUNDATIONS

An Overview for Starting Your Own

What Is A Private Family Foundation?



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Tax-exempt, not-for-profit organizations, private family foundations can be managed by a family, a corporation, even a single person. Among other social causes, they are organized and operated to

fund religious, scientific, charitable, literary and educational endeavors, and are classified as a 501(c)(3), according to Internal Revenue Service code.

A foundation is a planned gifting company that helps foster family involvement, provides significant control over assets and gifting methods that provides instant tax deduction benefits for the owner.

How Do I Form a Private Family Foundation?

Private family foundations can be organized like a trust, but classifying it as a non-profit corporation is more common. To begin the process, you'll need an attorney experienced in estate planning and charitable gifting.

He or she will draft the initial legal documents to establish a private family foundation.

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Strategic Philanthropy: Focus on Results

Do you have a passion, a soft spot in your heart to give back to the community? Whether that's medical research, supporting community education, or donating money to a local mission, making charitable donations to front-line organizations addressing social issues might be your calling.

It was for Bill and Malinda Gates, and for Boone Pickens. His story is very interesting. In the June 5, 2007 issue of *The Wall Street Journal*,

His goal is to use his donations as leverage to encourage his favored causes to try new ways to bring in even more money.

— Mr. Fund, *The Wall Street Journal*

reporter John Fund wrote about Mr. Pickens' one-of-a-kind philanthropic endeavor. "His goal is to use his donations as leverage to encourage his

favored causes to try new ways to bring in even more money," according to Mr. Fund.

That said, Mr. Pickens gave Oklahoma State University \$20 million to buy life insurance on 25 alumni. The University found 27 between the ages of 65 and 85 who agreed to have the university take out a \$10 million policy on them, with the school as the ultimate beneficiary. An example of strategic use of money, Mr. Fund

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Developing a Mission for Your Charitable Giving

From assisting your local food bank to funding medical research, it can be difficult deciding where to give. If you're thinking about charitable giving to help people long after you've passed into the ever after, companies such as Schwab, Vanguard and Fidelity offer donor advised funds as one option to manage your giving.

While they are easy to set up, you have to follow the company's regulations. On the other hand, your city may have a community foundation that can be used for charitable giving.

However, a private family foundation may be a better choice. Although the initial start-up can be more expensive than donor advised funds or community foundations, you have the freedom to determine

how and to whom foundation money is distributed. By creating a private family foundation you position yourself to build a family legacy.

You can involve family too, appointing them to different jobs that help the foundation run smoothly. Initially you can reap tax deductions on your net worth. And, after you die, depending on your will and trust, you'll save money on estate taxes too.

Creating a Family Legacy

Although you have spent years building wealth, which is hard work, establishing a private family foundation creates long-term purpose for your family. By using some of your wealth to fund programs near and dear to your heart, others will benefit from your goodwill, and this includes

your children. Involving them in the foundation's decision-making, family values may form and crystallize in each of them. Done well, when you're dead and gone, when that torch of values has been passed to your children, they can carry on your legacy.

You Control the Assets and Giving Strategies

By managing a foundation, you control asset allocation. That means you can choose how much wealth flows into the foundation during your lifetime and how much the foundation gets after you've passed away. You also have control over investing the foundation's assets. While your foundation's assets can grow tax-exempt, you're required to give away 5 percent annually.

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And your accountant should file the IRS paperwork to classify the foundation as a 501(c)(3) not-for-profit corporation.

With this filing, expect to pay a one-time user fee. The IRS uses this to defer administrative costs. Afterwards, the IRS will collect 2 percent of the foundation's revenue annually – this covers monitoring foundations like yours.

If you've decided to start a foundation, it's important to think about the charities you'd like to fund and the family members you'd like to involve. Inviting them to sit on the foundation's board of directors is an excellent way to engage them in organizational decision-making.

There are significant tax advantages associated with foundations.

During the first few years of the foundation, you should be having an on-going discussion with your family about the direction of the foundation.

Over time, your thoughts will crystallize and the organization's annual-giving will be more research-driven.

Foundation Tax Advantages and Spending

There are significant tax advantages associated with foundations. For example, donors receive a 30 percent tax deduction based on their adjusted gross income for cash contributions. Or, if the donation is appreciated stock, the donor can gift up to 20 percent of his adjusted gross income.

Contributors should also realize that built-in capital gains for any appreciated property goes away when they are donated to the foundation or charitable organization. Therefore, you can avoid capital gains tax on assets donated to the foundation,

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Strategic Philanthropy

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reports that the insurance policies have two death benefits. The first pays a \$10 million face value, while the second pays an additional benefit equal to the premiums that will be paid. An arrangement that helps school and business, the insurance company makes its profit and the university gets a steady stream of money as the insured die off. All this, and it doesn't cost the insured a dime, Mr. Pickens told Mr. Fund.

The Sobrato Family's charitable contributions are also one of a kind.

The real estate family, which lives in New York, constructs buildings and gives them away. For example, the family built a 110,000-square-foot office park in Silicon Valley for 28 nonprofits – these are some of the fanciest digs in the Milpitas, California area. The strategy is simple: instead of paying capital-gains tax when selling a building, donate it to a charitable foundation. They can take advantage of pretax value.

This is one of many examples of philanthropic giving that gets more bang for your buck. It's understandable you may not have \$20 million to donate to your alma mater,

but your family can make charitable giving more profitable and strategic. Having a comprehensive financial plan with a philanthropic component to it is a good idea to consider.

There are many charitable giving opportunities, but without a plan, a mission and a foundation to manage your charitable giving, you could be throwing money away. With the four steps listed below, talk with your financial advisor; you could make some very important financial decisions that could impact people for years to come.

Four Key Points You Should Remember

Establish a private family foundation, if your situation warrants.

A foundation is a non-profit organization that is usually funded by a single benefactor, such as a high-net-worth family or corporation. It has a Board of Directors to manage its activity, and it distributes grant aid to social, educational, religious or other charitable activities that serve the common welfare.

There are other options too. If you have limited resources but still want to give, a community foundation may be the right choice for you.

Although, they can be restrictive – some may require you to work with their advisors – you can manage your own account. Schwab, Vanguard, Fidelity and other custodians have donor advised accounts. These are programs you can start with the help of your financial advisor.

Involve the whole family, including your children.

By involving the children in the initial planning, you'll be able to impart upon them your goals for using family wealth for charitable giving. This is one way you can ensure that your wealth is being used for purposes that are beneficial to others and contributes to building and strengthening your family legacy.

Getting the children and grandchildren working in the foundation may solidify the philanthropic values you hope to instill in them. Managing the foundation will also teach them about managing a business, since foundations are usually corporations.

Establish and agree upon a philanthropic mission.

Like a good business with a mission, by drafting one, you'll set the course of your gifting efforts. You'll be able to easily measure and monitor how well donations are used. A mission statement will also help you identify new gifting opportunities. Communicating this to your children is important as well.

Focus your giving on specific programs.

This goes back to your mission. Let's face it, you can't save the world, but if your charitable gifting is specifically targeted and effective like Pickens, you'll do more for a cause and your family's legacy.

Mission Statement

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Unlike other charitable options, managing the foundation gives you the freedom to control gifting strategies too. You can establish which types of gifts to award annually and who the recipient will be.

You can also institute deadlines and other reporting procedures that must be met before funds are distributed. For example, if you decide to fund medical research in which significant life-changing results can take years to develop, requiring the research institution to supply annual progress reports demonstrating how your funds have been allocated is one way to monitor how efficient the organization's money is being used.

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and you will receive an income tax deduction on your annual tax returns.

Conclusion

Managing a private foundation requires some annual paperwork for filing tax returns. If you plan to start one, you should have at least three outside advisors. Undoubtedly, you'll need an attorney and an accountant.

We discussed their function earlier. A financial advisor with private family foundation experience to monitor the organization's investments is an important team member too.

He or she can also maintain proper asset allocation and monitor annual income used for gifting. You should not create a foundation just for its tax benefits, but as a family project to support charitable organizations near and dear to your family's heart.

Your Philanthropic Mission Statement

To accomplish your goals, over time your foundation should develop a mission statement. This is an organic process that grows out of your family's deep seeded values and interests. Simply sitting down one summer afternoon with a cold glass of iced tea and jotting a few thoughts on paper is just the beginning.

Think of the mission statement as a beacon that lights a path and sets a direction for your foundation's future. It helps you stay the course. "What we're talking about here is not simply writing a statement of belief," wrote Steven Covey in *First Things First*. "We're talking about accessing and creating an open connection with the deep energy that comes from a well-defined, thoroughly integrated sense of purpose and meaning in life."

Here are some questions to think about when drafting your charitable mission statement:

1. What types of programs will my private family foundation fund?
2. Why do I want to fund these types of programs?
3. What do I hope to accomplish by funding such programs?

With answers to three questions, combine the information into one, concise sentence.

Once you have a mission statement drafted, you'll be better able to think about how to use your charitable gifting to get others involved. You'll also be ready to think about how to fund your programs. The bottom line, however, is to understand the big picture – the purpose for your passions and charitable goals.



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