



**COMMUNITY
FOUNDATION**

**SOUTHWEST
WASHINGTON**

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Disclaimer 😊

I am not an attorney or CPA. This information was gathered from trusted sources referenced at the end of the presentation.

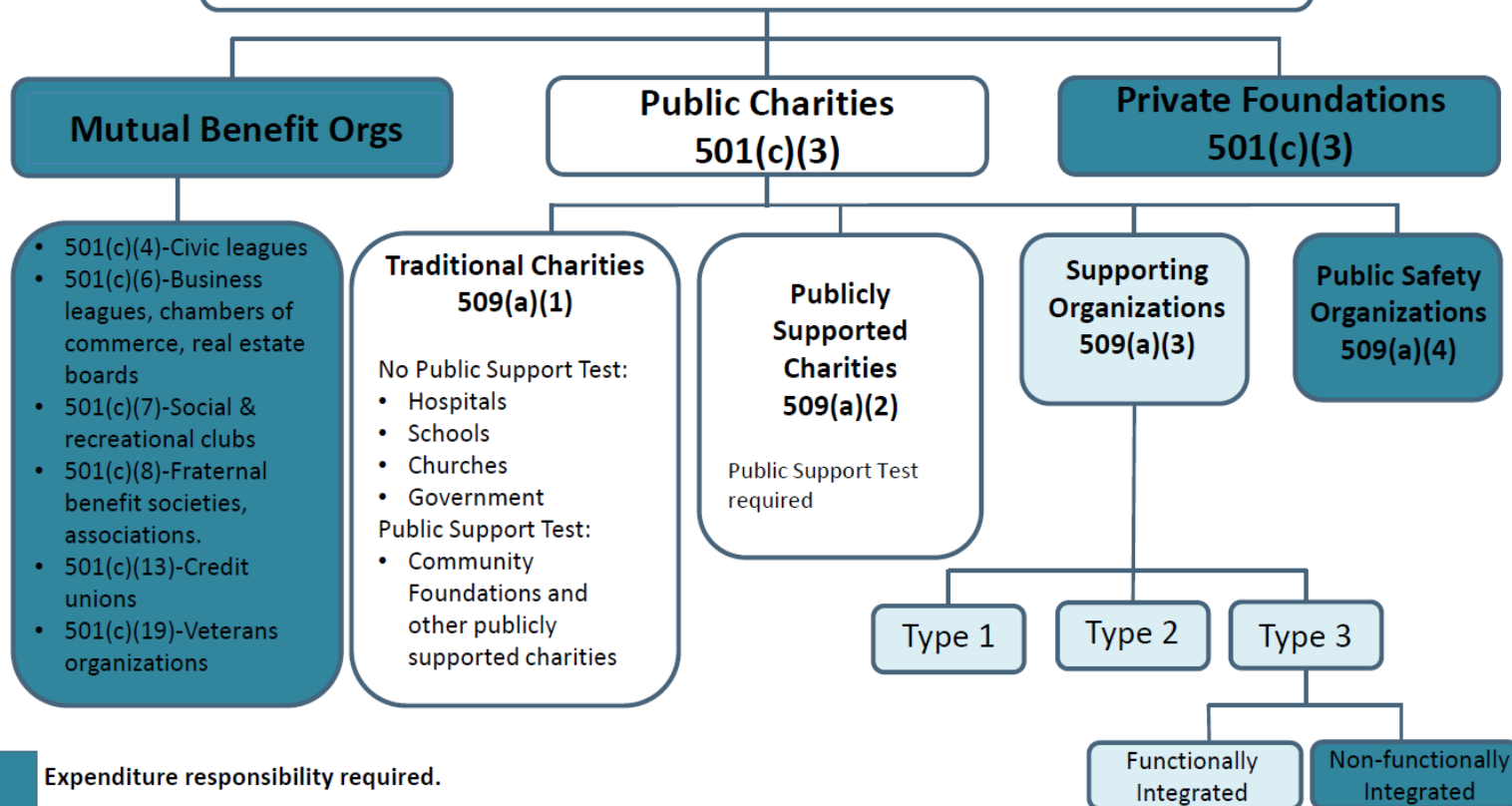


Donor Advised Funds, Private Foundations and Supporting Organizations



WHEN IS EXPENDITURE RESPONSIBILITY REQUIRED?

Section 501(c) – Tax Exempt Organizations



Expenditure responsibility required.

Expenditure responsibility may be required.

Expenditure responsibility not required.



Donor Advised Funds

A **donor-advised fund**, or DAF, is a philanthropic vehicle established at a public charity. It allows **donors** to make a charitable contribution, receive an immediate tax benefit and then recommend grants from the **fund** over time.

DAF Characteristics

1. Tax Exempt Status – shares public charity status
2. Charitable Deduction – 50% of adjusted gross income (cash), full fair market value up to 30% of AGI (long term capital gain property)
3. Donor Control – donor recommends grants, charity makes final decisions

DAF Characteristics Continued

4. Minimum annual payout requirements
— none
5. Start up costs — usually no cost to donor
6. Minimum size — can vary, usually 10k-25k

DAF Characteristics Continued

7. Administration and operations – provided by charity
8. Annual costs – established by charity, usually as a basis point fee based on size of fund
9. Annual taxes – none

DAF Characteristics Continued

- 10. Annual tax filings – none for DAF fund holder
- 11. Investments – provided by charity, occasionally with donor advice
- 12. Fiduciary responsibility – charity
- 13. Liability and risk - charity

Private Foundations

A **private foundation** is a nonprofit organization which is usually created via a single primary donation from an individual or a business and whose funds and programs are managed by its own trustees or directors.

Private Foundation Characteristics

1. Tax Exempt Status – must establish tax exempt status as a private foundation (private charity)
2. Charitable Deduction – 30% of adjusted gross income (cash), full fair market value up to 20% of AGI (long term capital gain property). Limited to basis for some types of property.
3. Donor Control – donor has complete control over investments and grantmaking

PF Characteristics Continued

4. Minimum annual payout requirements – 5% of asset value for charitable purposes
5. Start up costs – legal, accounting and operational
6. Minimum size – usually \$5 Million or more, some advisors recommended \$10-20 Million or more.

PF Characteristics Continued

7. Administration and operations – established and managed by the PF
8. Annual costs – administration, accounting, investment and audit
9. Annual taxes – usually tax exempt but subject to excise tax of up to 2% of next investment gain including capital gains

PF Characteristics Continued

- 10. Annual tax filings – separate return filed annually
- 11. Investments – establish plan, develop policy, research and manage investments
- 12. Fiduciary responsibility – PF board
- 13. Liability and risk – PF

Private Foundation
vs.
Donor Advised Fund
=
Control

Supporting Organizations

A **supporting organization** is a charity that carries out its exempt purposes by **supporting** other exempt **organizations**, usually other public charities. There are three types within the IRS Section 501(c)(3) Code

Supporting Organization Characteristics

1. Tax Exempt Status – public charity
2. Charitable Deduction – 50% of adjusted gross income (cash), full fair market value up to 30% of AGI (long term capital gain property).
3. Donor Control – gives the donor a feeling of more control than a DAF but less than a PF. SO sets independent investment policies, has a separate board. Public charity and donor work together to appoint board, set policy and grant making criteria.

SO Characteristics Continued

4. Minimum annual payout requirements
— none
5. Start up costs — lower than a PF if coordinated with public charity
6. Minimum size — usually determined by public charity, \$3-5 Million and up

SO Characteristics Continued

7. Administration and operations – can be independent (with oversight by public charity) or provided by the public charity
8. Annual costs – can vary but usually lower than a PF due to relationship with public charity
9. Annual taxes – none

SO Characteristics Continued

10. Annual tax filings – completed by the public charity
11. Investments – independent policies and investment management from public charity
12. Fiduciary responsibility – varies depending on the type of SO
13. Liability and risk – varies depending on the type of SO

SO Characteristics Continued

14. Relationship Test – Type 1, 2 or 3

Supporting Orgs vs. DAF's

Donors prefer S.O. over DAF:

- Perceived greater control
- Separate investment policies
- Separate grant criteria
- More control over successor advisors
(depending on the public charity)

Supporting Orgs vs. DAF's

Public charities prefer S.O. over DAF:

- Gifts to the S.O. are not subject to the public support test
- Unique investments/assets can be held easier in the S.O.
- S.O. is a shield from liability
- Avoidance of UBIT by the public charity.

Succession Plans

Donor Advised Funds

- Future generations can be successor advisors, public charity determines policy
- Funds in a DAF *can't* be granted or transferred to a PF

Succession Plans

Private Foundations

- Full control of appointing future board members.
- PF can dissolve by granting all funds to nonprofits or by granting corpus to a DAF or S.O. at a public charity

Succession Plans

Supporting Organizations

- Can appoint successors/board members with approval of public charity
- Can dissolve by granting all funds out to nonprofits or by granting corpus to DAF or other funds held at public charity.
Funds in a S.O. *can't* be granted or transferred to a PF

Local Trends

What are we seeing locally at the
Community Foundation?

Sources

<http://www.pgdc.com/pgdc/family-foundations-donor-advised-funds-and-supporting-organizations-alternatives-private-foundations>

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