

Charitable Gifting Through Community Foundations

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–Helen Modly, CFP, CWPA, and Sandra Atkins, CPA/PFS

As a lesser-known but viable alternative to a private foundation, a community foundation offers a number of philanthropic—as well as tax-related—benefits, especially for smaller donors.

Creating a family legacy through charitable giving receives a lot of press when the likes of Bill Gates and Warren Buffett commit to leaving huge amounts of their fortune to charity. We typically think of a private foundation as a solution for someone with substantial assets, or as a commercial gift fund sponsored by various fund families. However, another option that is not that well known but can work for smaller donors is your local community foundation.

What is a community foundation?

A community foundation is a tax-exempt Section 501(c)(3) public charity created for a specific geographic region to improve the quality of life for its residents through lasting charitable giving. There are over 700 community foundations in the United States managing more than \$5 billion in assets. Community foundations offer a low-cost alternative to private foundations and provide access to experienced staff with knowledge of local issues to help donors and their advisors design a gift plan that meets the donors' needs.

Community foundations offer different types of funds to meet each donor's needs. A donor-advised fund

allows the donor to stay involved in recommending the charities they wish to support. An endowment-type fund allows the donor to establish a fund in perpetuity to support causes in the community for generations. These funds can be set up in the name of an individual or family, or they can remain anonymous.

Donor-advised funds

A donor-advised fund is a charitable giving vehicle established by a public charity that manages charitable donations on behalf of individuals, families, and organizations. It offers an organized, inexpensive, and flexible way to give to charity as an alternative to creating a private foundation.

Several large custodians and fund families offer donor-advised funds. Community foundations also provide donor-advised funds under their umbrella with the added benefit of their valuable local knowledge and relationship with local beneficiaries.

As the name implies, the donor “advises” or recommends which charitable organizations will receive grants, when they will be made, and for how

much. The sponsoring organization has final approval on the grants based on certain guidelines, including the determination that the recipient charity is a qualified tax-exempt organization under Section 501(c)(3).

Donor-advised funds can be established very easily and usually have fairly low minimums (\$5,000 to \$10,000, depending on the fund). The donor gets a charitable tax deduction in the year in which the donation is made, even if the funds aren't granted to charities until later years.

Grants can be as much or as little as the donor wants—from zero to the entire fund—and can be designed to pay out in full at the donor's death or carry on for one or more generations, depending upon the fund.

Private foundations

Private foundations are normally considered endowment funds, but they have a payout requirement of 5% per year. The donors can stay involved in the charitable decision-making throughout their lifetimes and can create a board of directors consisting of family members and others who will identify the grant recipients and the amounts to give in the future. Private foundations are normally set up to continue in perpetuity.

Flexibility in giving

A community foundation can offer the best of both worlds: the flexibility of commercial donor-advised funds plus the permanence offered by private foundations.

If you are interested in working with a community foundation, start by meeting with the foundation staff. They will help you understand the types of funds they offer and how each works. Although these may vary between foundations, they have similar characteristics. The community foundation staff can also help identify nonprofits in the area that address the causes most important to you.

If you do not want to stay involved with the grant-making decisions, choose an endowment fund. In this case, the grant-making responsibilities are managed by the grants committee and board of directors of the

community foundation. There are several different types of funds in this area:

- **Field-of-interest funds.** These allow you to target a specific community need or area of interest. For example, if you want to set up a memorial fund to honor a parent who was an artist, you could create a fund that supports arts organizations.
- **Designated funds.** These can provide ongoing support for your favorite charity or multiple charities. This is a simple way to be sure the support happens annually and endures beyond your lifetime. The community foundation manages the funds and awards annual grants.
- **Unrestricted funds.** As the name implies, these funds enable the board of directors of the community foundation to identify and respond to the community's needs as they change over time. This is a good option for someone who wants to make a gift that will impact the community but doesn't have a special area of interest and doesn't want a named fund.

Working with your community foundation

A community foundation is a good solution if you:

- Care deeply about the local community
- Are interested in creating a local personal or family legacy
- Have considered creating a private foundation but are concerned about the cost and administrative complexity
- Want to use local expertise and develop local relationships in your charitable planning
- Want to receive the highest tax benefit for your charitable contributions

Getting involved in your community foundation will allow you to engage with other donors with similar interests, and identify your local community's needs. You can create a family legacy that can extend for generations in an uplifting and meaningful way.

Tax facts

Donations made to community foundations and donor-advised funds receive higher tax benefits than donations made to private foundations because a higher percentage of the gift is tax deductible.

For instance, cash gifts are deductible up to 50% of adjusted gross income vs. 30% for the private foundation, and gifts of appreciated property are deductible up to 30% rather than 20%.

A community foundation may accept gifts of appreciated property, such as securities or real estate, as well as cash, and it can be named as the beneficiary of an IRA or a life insurance policy. Your advisor and the staff of your local community foundation will work with you to design and implement a personalized charitable gifting strategy.

Another plus is that many community foundations allow your current investment advisor to continue to manage the investments in the fund that is created. Typically there are asset minimums involved, and the community foundation will perform due diligence on the advisor as it must with all advisors that manage funds under the foundation's umbrella. You win, your advisor wins, and your local community wins!

Helen Modly, CFP, CWPA, and Sandra Atkins, CPA/PFS, write on charitable giving and personal finance for Horseshoeth, an independent organization providing unbiased insight into the critical issues facing financial advisors and their clients.

A financial advisory practice specializing in three disciplines. We help:

1. individuals successfully navigate make-or-break planning challenges to structure durable lifetime income in retirement.
2. business owners coordinate business & personal financial planning, so they have less stress, and can remain focused and in control of their generational wealth.
3. attorneys, accountants and other professionals deliver more value to their clients in areas clients value most.

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