

# Comparison between a Private Foundation And A Fund in a Community Foundation

## 1. IRS Charitable Status

CF: Public Charity – 501 (c)(3) & 509 (a)(1)

PF: Private Foundation – 501 (c)(3)

## 2. Establishing the Fund

CF: A Community Foundation fund may be established quickly and efficiently with a simple document at no cost to the donor. Funds may be set up for as little as five thousand dollars. There is no maximum.

PF: Establishing a private foundation requires extensive legal and accounting expenses. To assume the costs of establishing and maintaining a private foundation the original size should be at least one million dollars.

## 2. Tax Deductions for Contributions

### A. Cash

CF: Tax deduction of up to 50% of Adjusted Gross Income (AGI).

PF: Tax deduction of up to 30% of Adjusted Gross Income (AGI).

### B. Appreciated Publicly Traded Securities

CF: Tax deduction of 100% of fair market value up to 30% of AGI.

PF: Tax deductions limited to fair market value up to 20% of AGI.

### C. Appreciated Closely Held Stock

CF: Tax deduction of 100% of fair market value up to 30% of AGI.

PF: Tax deduction limited to cost basis up to 20% of AGI.

### D. Real Estate Gifts

CF: Tax deduction of 100% of fair market value up to 30% of AGI.

PF: Tax deduction limited to cost basis up to 20% of AGI.

## 4. Investment of Funds

CF: - The community foundation selects and monitors the portfolio advisors. Since the community foundation's total fund is normally larger than a single private foundation, the economy of scale offers cost-efficiencies and minimizes risk.

PF: The donor bears the responsibility of selecting and monitoring those responsible for investing the foundation's assets. Restrictions on jeopardizing investments, excess business holdings, self-dealing and other issues must all be monitored to prevent penalties or revocation of charitable status.

## 5. Grant making

- CF:
- Donors may choose from being very involved to not being involved.
  - If a Donor Advised Fund<sup>1</sup> is established the donor decides the amount and recipient(s) of the grants.
  - If a Designated Fund<sup>2</sup> is established the recipients and percentage amount of the grant will be the same each year.
  - If a Field-of-Interest Fund<sup>3</sup> is established the community foundation would be responsible for selecting the recipients.
  - The community foundation bears the burden of ensuring that grants are only made to IRS qualified charities.

PF: Donor decides the amount and recipients of grants. The donor bears the legal responsibility for ensuring that grants are only made to IRS qualified charities.

## 6. Annual IRS Requirements

### A. Annual report to IRS

CF: The community foundation files IRS Form 990 on behalf of all funds. The individual donors are not required to file.

PF: Donor must file IRS Form 990-PF with supporting schedules. Unless the foundation is very small this will require the assistance of an accountant. Failure to comply with reporting requirements will result in loss of charitable Status.

### B. Taxes

CF: No taxes are required.

PF: Must pay a 2% excise tax on all capital gains. This calculation normally requires the assistance of an accountant.

### C: Annual Distributions

CF: There are no mandatory payout requirements.

PF: Must pay out for charitable purposes at least 5% of the asset value regardless of the foundation's annual income.

## Types of Funds Within A Community Foundation

<sup>1</sup>Donor Advised Fund – Donor advised funds are unique in that they allow the donor or the donor’s representative to have advisory input in the grant making process. Annually, or more frequently, the donor makes recommendations of grants to be made from the fund. Typically, before making a grant from a donor advised fund, the community foundation will make sure that the recommended beneficiary is recognized by the IRS as charitable

<sup>2</sup>Designated Fund –With a designated fund the donor identifies the organization or organizations to be recipients of annual distributions from the fund. Designated funds are beneficial for the donor who wishes to make a bequest to a favorite charity or charities but is concerned that the gift will be spent rather than preserved for the organization’s future.

<sup>3</sup>Field-of-Interest Fund – With a field-of-interest fund, the donor describes a specific area of philanthropic interest. The area may be broad or narrow. The donor chooses the area, but the community foundation is responsible for selecting the recipients of the grant.

Unrestricted Fund – This type of fund supports the community foundation and various charitable causes chosen by the Board of Directors of the Community Foundation.

Agency Endowment Fund – Charitable agencies may establish a fund to provide long-term, on-going support for their mission.

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