

Message from the Executive Suite

## As Philanthropy Grows, Control Becomes Major Issue



Roger Silk, CEO



James Lintott, Chairman

If you want proof that philanthropy is growing, look no further than the newspaper, where for the first time reporters are being assigned full-time to cover philanthropy. "In this vibrant economy, foundations are sprouting left and right," says Rebecca Carr of Cox Newspapers, explaining her new beat.

Control is one key reason why the great majority of informed donors who wish to set aside significant amounts for charity elect to do so via their own private foundations. While many charities now are promising donors the benefits of private foundations without the administrative requirements, we're reminded of the old saw: If something looks too good to be true, it's probably not true.

And sure enough, the Internal Revenue Service is stepping up its scrutiny of donor-advised funds. In internal IRS documents just released, the IRS cautions agents to take a dim

view of any promise by a public charity or donor-advised fund to always follow a donor's advice. IRS has fought and won on this issue before, and now appears poised to step up the battle. The IRS also frowns on donor control of the timing of grants from donor-advised funds.

The lesson here is clear: Don't give to a donor-advised fund unless you don't care about control.

A better approach might be that taken by Scott Oki. In 1986, the Mi-

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crosoft executive started a private foundation to save on income taxes and as an estate planning measure. After he retired, he found there was only so much golf he could play, and he began devoting 90 percent of his time to the Oki Foundation and about 26 charities that he has founded, joined, or supported.

"I did not grow up with a silver spoon, or even silver chopsticks," Oki says. "But I think giving comes back to the values you grew up with."

### Did You Know?

- Private foundations and other donors provided critical funding for building new protective enclosures at the National Archives for the Constitution, the Bill of Rights, and the Declaration of Independence.

- A private foundation wants to create 200 community-based "literacy clubs" in the next five years to improve the reading skills of black males. The Village Foundation, based in Alexandria, Va., notes that young black males read at lower levels than any other group of native English speakers. To change this, the foundation wants parents, neighbors and ministers to volunteer to help more than 1 million school-age children.

- A private foundation has helped save a school in Detroit. The city had threatened to close Westside Christian Academy after the school's 50-year-old furnace failed inspection. The foundation provided \$10,000 of the \$68,000 replacement cost; a church gave \$5,000; the rest came in donations as small as \$5.

- The business school at the University of California at Berkeley launched a new class this semester on "Contemporary Philanthropy," teaching students how to choose among charities and how to decide whether to contribute time, cash, or various types of securities.

## Foundations Help Library of Congress Make History Accessible

The Library of Congress is not just a research service for members of Congress. To those in the publishing business, it's a place to send copies of new books. To those who live nearby, it is an incredible research resource. To those who appreciate architecture, its Thomas Jefferson Building is,



Interior of Library of Congress

as one employee put it, "America's palace." And, as the Library itself likes to point out, it is "the largest collection of stored knowledge in the world."

But even those familiar with the Library may not realize that it depends on charitable contributions for a significant amount of its budget. Congress appropriates money for the Library,

of course, but without vital funding from private foundations and other donors, the Library would accomplish far less—as Metromedia President John W. Kluge realized when he gave the Library \$60 million last month.

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www.sterlingfoundations.com  
468 N. Camden Drive, Suite 300, Beverly Hills, CA 90210  
Phone (888) 567-3090, Fax (520) 396-0594

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The Library already has more books than any other library. It has more maps, globes, and atlases than any other place on earth. It has a copy of almost every phonograph record ever made in the United States, and the largest collection of motion pictures in America. Its collections include items in 460 languages.

As the Library enters its third century, it faces the challenge of not only preserving the history already enshrined in its collections and making that history accessible, but also of devising ways to preserve and make available such evanescent items as websites and electronically published materials.

By the end of this year, 5 million items from the Library's collections will be accessible through its website, which already gets 4 million visits per day.

## Enormous Cancer Study to Track 300,000 People Over 20 Years

Medical researchers in New York City have begun one of the largest population-based research studies ever undertaken in the United States, in an effort to find the causes of cancer.

Over the next 20 years, 300,000 New Yorkers will be asked to provide blood samples, along with information about their lifestyles, diet, exercise and family backgrounds. The study is not designed to give volunteers information about their own prospects of developing cancer, but the resulting database should help scientists understand the causes, prevention and treatment of cancer.

This year, 1.5 million Americans will be diagnosed with cancer and 500,000 will die of it, according to the Academic Medicine Development Co., the consortium of 36 hospitals and medical schools running the study—which predicts that cancer will soon eclipse heart disease as the nation's number-one killer.

The two-year pilot phase of the study was funded in part by private foundations, along with grants from corporations and other sources.

## Foundations Help Pediatrician Revolutionize Education

Dr. Mel Levine is on a mission—to change the one-size-fits-all approach of American elementary education. The pediatrician at the University of North Carolina says too many kids fall through the cracks because teachers don't understand how different types of children think.

"There's a huge amount of knowledge about how learning works that hasn't gotten to the front lines—the teachers," Levine told *Newsweek*. Applying this new brain

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# Consultation Corner by Roger Silk

## Last Chance to Save Income Taxes in 2000

All founders of private foundations are motivated by the desire to do good in the world. Nevertheless, the valuable income tax benefits available from your own foundation are an important reason many people create and fund their foundations at the end of the year.

Generally speaking, you may be able to **cut your income tax bill immediately by up to 30%** by creating a private foundation. You would do this by contributing 30% of your pre-tax income to your foundation. Of

from his personal account to his private foundation account would save him \$135,000 in taxes.

And if part of the contribution to the foundation was made with appreciated publicly traded stock that had been held for over a year, the tax savings would be even greater because there would be no capital gains tax on the appreciation.

### *Situations in Which Creating a Foundation Might Be Especially Appropriate*

To determine if a foundation

They need a tax deduction this year, but aren't yet prepared to make major commitments to specific charities. Establishing a private foundation solves the dilemma by enabling you to get a tax deduction now, yet decide later (even years from now) how to spend your charitable dollars.

Your private foundation buys you the scarcest of all commodities—time.

The only way to capture the tax benefit this year is to make a gift to charity this year. Your private foundation is the only charity that lets you get the tax break today, yet keep control while you consider at leisure how to distribute your charitable dollars.

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## Income tax benefits are an important reason many people create their foundations at the end of the year.

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course, you may transfer a smaller percentage, and get a correspondingly smaller tax benefit.

Here's how the deduction works. When you contribute money to your private foundation, you can deduct the amount of the gift from your taxable income. For example, consider a person whose taxable income before charitable deductions was \$1 million, and whose combined federal and state income tax rate was 45%. That person would pay about \$450,000 in income taxes for the year 2000.

But it's not too late to cut that tax bill dramatically. If the person contributed \$300,000 to his private foundation, he would get a \$300,000 tax deduction. Instead of paying tax on \$1 million, he would pay tax on just \$700,000, for a tax saving of \$135,000. Simply moving money

might help you this year, review the following list. If any of these fits you, you should consider your own private foundation:

- Your income this year is particularly high
- You enjoy steady, or growing, income above personal needs
- You intend to create a private foundation upon your death
- You currently give a significant amount to charity each year
- You own highly appreciated, publicly traded stock
- Your net worth exceeds the amount you anticipate needing
- You plan to leave a substantial amount of assets to charity upon your death

### *What to Do If You're Not Sure What Charities You Want to Support*

Busy people often face a dilemma:

### **Time is Running Out**

In order to claim the tax deduction for 2000, your foundation must be set up and funded before year-end. The process of setting up a foundation takes time, getting the bank or brokerage accounts set up takes time, and actually getting the foundation funded (which is necessary to get your deduction for this year) takes time. If you would like Sterling to help you get your foundation set up so you can get a deduction for this year, please contact us immediately. You may use the enclosed request form, or call us at (888) 567-3090.

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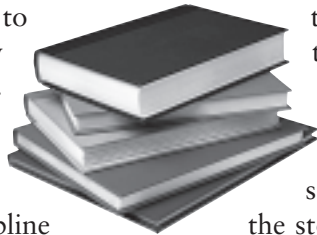
*If you have a private foundation, or are considering creating one, Sterling will be happy to consult with you at no cost and no obligation. Our professionals can help determine how to get the maximum possible tax savings, and how to use your foundation to most effectively achieve your charitable goals. Please call 888-567-3090 and ask to speak to Erica to schedule a free consultation.*

## Book Briefs

### *The Business of Heart: How Everyday Americans Are Changing the World* by Michael J. Glauser (Deseret Book Co.)

In just 250 pages, this book provides narratives of 25 people who created non-profit organizations to solve problems they saw around them. Michael J. Glauser, a businessman and philanthropist himself, says the application of business skills and discipline can make a non-profit group more successful.

For example, Steadman Graham, founder of Athletes Against Drugs, says his group has survived mainly due to good accounting, financial



and legal services. Other founders of charities credit aggressive marketing and strict budgeting.

But Glauser cautions that business skills are not enough. Changing the world requires both “extraordinary compassion and organizational savvy,” concludes the author of this practical and inspirational book.

One of the messages running through the stories is that money and good intentions can go a long way, but that experienced professional advice can help donors leverage resources, get up the learning curve faster, and be more effective in achieving their goals.

### **Education**, from page 2

research to education, a teacher can help a disorganized kid remember his homework or show a socially awkward child how to work in a group, Levine says.

Levine’s mission is a huge one, but he has already trained thousands of teachers and attracted millions of dollars in support from private foundations and other donors, including a five-year, \$10 million challenge grant from discount broker Charles Schwab.

The principal of Menlo Park Terrace Elementary School in Woodbridge, N.J., was impressed enough after taking Levine’s training that he sent all 25 of his teachers. As a result, they have been able to help many children in the classroom who otherwise would have been sent to remedial education.

## Questions and Answers

**Q:** I run my own business. Can I run my own foundation?

**A:** You can. However, before you do, carefully consider what’s involved. At a minimum, you’ll need to master large sections of the Internal Revenue Code and your state laws. It would also be helpful to gain a few years of experience with the intricacies of the non-profit world. Most importantly, however, you need to carefully evaluate what risks you’re willing to run, because mistakes can be very costly.

Consider the case of the Kermit Fischer Foundation. This foundation was forced to pay penalty excise taxes and its tax-exempt status was revoked because of the foundation’s mismanagement. Among the mistakes the director made: failing to file the proper forms with the IRS, paying himself a salary which was later deemed to be unreasonable, failing to keep full records of his payments, failing to adequately justify the purchase of certain assets and the rental of certain property, failing to make certain required grants to charities, personally benefiting from transactions without proper records, and generally neglecting sound foundation management practices.

Or consider the case of another foundation whose exemption was revoked in an IRS Private Letter Ruling (in which the IRS protects the identity of those involved). In this case, a private foundation displayed its art work on the grounds of the home of the foundation’s directors (a husband and wife). They invited art students and the public to view the work, and handed out information packets. But because they were not experienced in the areas of law and practice involved, they ran afoul of the IRS. The IRS determined that the directors were improperly using the foundation’s assets, found the foundation was guilty of self-dealing, and revoked the foundation’s tax exemption. It is clear from the ruling that a more careful, more professional, and more public display of the art may have resulted in a different outcome.

Running a private foundation *properly and effectively* is a specialized task. You *can* do it yourself, just as you can wire your house yourself; either way, a mistake can provide quite a jolt.

*If you would like to submit a question, please email Q&A@sterlingfoundations.com.*