

The Gold Standard

Estate Planning with a Private Foundation

Charitable giving is an important consideration when exploring estate planning solutions with high net-worth clients. However, charitable planning can take many different forms and be accomplished through a number of vehicles. For a client with the means, no other option can match the unique advantages of a private foundation.

Reaping Financial Incentives

Since 1913, when the 16th Amendment introduced the income tax, Americans have been afforded financial incentives to give to charities. When the estate tax was introduced three years later, even more incentives for including a private foundation as part of the estate planning process were created:

- Current-year income tax deductions
- Income-tax-free growth of the foundation's assets
- An exemption from estate and gift taxes
- Exclusion of capital gains tax on appreciated stock

By establishing a private foundation, donors have a legal, actively encouraged way to reduce their tax obligations.

Making a Social Impact

While gaining significant tax deductions is certainly a key benefit to consider in estate planning, making a charitable impact is typically the impetus for creating a foundation. The ways in which they make a difference are as varied and unique as their founders. Much more than a sum of money set aside for philanthropic use, effective foundations are the carefully cultivated, ever-evolving product of the donor's charitable vision and drive. By advancing causes they believe in, donors create giving legacies where they are remembered for what they did for others, rather than what others did for them.

Maintaining Control

Private foundations offer the donor full control over their philanthropy —

from selecting the foundation name; appointing board members; determining when, how, and to whom grants are made; controlling how the money is invested; and selecting the bank or institution that will hold the foundation's funds. Conversely, donors will relinquish much of their control and greatly limit their scope of influence when giving directly to public charities.

Extending the Legacy

Foundations uniquely provide an instrument for the founder's vision to be upheld, even after they are no longer involved. Through succession planning, founders have an effective means to communicate their values and intentions for the foundation. This may include instructions on the distribution of the foundation's funds, which serves as a useful guide during the transition to the donor's heirs. The grant history will also provide insight into the founder's charitable philosophy; the more extensive the philanthropic track record, the more information the successors have for reference. This offers donors a greater sense of personal gratification and recognition, encouraging charitable legacies that span generations. Accordingly, these factors have elevated the private foundation to the status symbol of choice.

Empowering the Next Generation

As succession planning often involves multiple generations, private foundations are an effective tool for maintaining close family bonds. By engaging children from an early age in the foundation's operations or programming, donors can similarly perpetuate their charitable legacy and pass down their values for generations to come. Such experiences will also prepare heirs for future foundation leadership positions. The donor can continue to increase their successors' involvement at the board level, preparing them to lead the board in pursuing their philanthropic objectives.

Conclusion

By establishing a private foundation, donors can create a legacy that will reflect their philanthropic vision and charitable philosophy in perpetuity. With the added benefits of legal control, flexibility, and significant tax breaks, foundations not only serve the interests of your client, but those of their family and society as well.