Rochester
Area Foundation

Private Family Foundation vs.
Rochester Area Foundation Donor Advised Fund

Issues for Individuals to Consider

	Private	RAF
Ultimate & Absolute Control	Advantage	Disadvantage
Tax Deductibility	Disadvantage	Advantage
Mandatory Distributions	Disadvantage	Advantage
Tax on Growth	Disadvantage	Advantage
Reporting	Disadvantage	Advantage
Privacy	Disadvantage	Advantage
Disqualified Persons	Disadvantage	Advantage

Private foundations may elect to transfer part or all of their assets to a community foundation for establishing a donor-advised fund which retains the private foundation's name and philanthropic goals. Community foundations have three distinct advantages over private foundations: deductibility of gifts, control of assets and reporting requirements.

Deductibility of Gifts:

The income tax deductibility of charitable gifts to a community foundation is higher. For example, gifts of cash are deductible up to 30% of adjusted gross income (AGI) for private foundations and 50% of AGI for community foundations. Also, donations of appreciated property and securities to a private foundation are currently limited to cost basis, instead of the “fair market value.” For community foundations the deduction rises to 30% of AGI based on full fair market value.

Control of Assets:

A private foundation must distribute at least 5% of the fair market value of the investment assets annually. Otherwise, there is a 15% tax on undistributed income. This tax rises to 100% if the distributions are not made during a resolution period. This provision can be especially problematic if a private foundation is holding non-income producing assets such as bare land or non-dividend paying stock. No such mandatory provision applies to a community foundation.

There are certain self-dealing restrictions affecting ownership (20% for a donor or family member, or 35% for an unaffiliated third party) of any business within a private foundation. This provision generally prevents a private foundation from holding closely held business interests. Again, with a community foundation, this issue does not apply. Private foundations have a fiduciary responsibility, and may face consequences for imprudent investments that jeopardize the charitable purpose of the foundation. The Treasury Department can require 5% excise tax and a 200% penalty. Once again, this is not the case for an advised fund within a community foundation. Finally, a private foundation pays a 2% tax on annual income (lowered to 1% in some instances). With community foundations there is no tax on the income generated by the funds under management, thereby shielding donations from governmental erosion through taxation.

Reporting Requirements:

Private foundations are required to do more extensive reporting than community foundations. Private foundations are required to submit annual tax returns to the Attorney General, as well as the Internal Revenue Service. Private foundations must also post annual notices in a general circulation newspaper indicating that the foundation’s tax return is available for inspection by any citizen who requests it within 180 days of circulation. A copy of the advertisement must then go to the IRS. These specific reports often become a matter of public record that leads to solicitation requests from the charitable community at large.

Summary:

The Rochester Area Foundation offers virtually all the benefits of charitable giving with minimum intrusion to the charitable fund. As a community foundation, we avoid many of the requirements which private foundations face ... while providing the independence donors seek in fulfilling their charitable and tax planning objectives.