

## Helping Your Clients with Charitable Giving: Frequently Asked Questions About Community Foundations

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Many attorneys and advisors work with community foundation on a regular basis, consulting with their professional staff about charitable options for clients. Others may not have had this opportunity. Even for those advisors who have had experience with community foundation, questions arise. Here are some of the most frequently asked questions about community foundation:

### **Who handles the investments of community foundation?**

Typically, community foundations employ a number of local banks, trust companies and investment firms to handle their investments. A volunteer "Investment Committee," consisting of business and civic leaders, monitors investment returns carefully and works with the investment advisors to ensure the continued growth of each permanent fund in the community foundation. The community foundation's board of directors provides fiscal oversight.

*Currently, The Park City Foundation's (PCF) assets are held and managed by JPMorganChase. Oversight is handled by our experienced Investment Committee. Members are: Tom Bakaly: Tom has worked as Finance Manager, Director of Capital Management & Budget, Assistant City Manager and Acting City Manager for Park City Municipal; J. Taylor Crandall: J. is a Managing Partner of Oak Hill Capital Partners with senior responsibility for originating, structuring and managing investments for the firm's Technology, Media & Telecom industry groups; John D. Cumming: John is Chair & C.E.O. of Powdr Corporation and oversees over seven ski resorts throughout the US; and Stephen A. Tyler: Stephen spent 28 years in various market related positions at JPMorgan including fixed income sales and trading, investment portfolio management, and risk management.*

### **Are there tax advantages of a community foundation over a private (family) foundation?**

Community foundations are public charities under the Internal Revenue Code. This classification offers some advantages to donors over private foundations. For example, gifts of cash and ordinary income property to a community foundation are generally deductible up to 50% of adjusted gross income (AGI). Gifts to private foundations are deductible only up to 30% of AGI. Similarly, gifts of appreciated property to community foundations can be deducted up to 30% compared with 20% for a private foundation. There are no excise taxes on community foundations as there are on private foundations, and community foundations do not have a requirement that a certain percentage must be distributed each year.

*In addition to tax advantages, Donor Advised Funds are an easy alternative to a family foundation. Set up can be done in a short meeting and does not require CPAs and lawyers. Additionally, PCF invests the funds, manages giving (check cutting, letters, & IRS regulations) in the donor's name, and provides local, relevant community knowledge.*

### **What kinds of charitable contributions can my clients use with community foundations?**

- **Outright Gift.** Your client can make a gift of cash, stocks, bonds, real estate, or other assets to a community foundation. Such a gift qualifies for the maximum charitable deduction under the Internal Revenue Code.
- **Bequest.** Your client can designate a gift or portion of his or her estate to the local community foundation and, in most cases, receive an estate tax charitable deduction.

- **Gift Annuity.** Your client can make a gift of cash or property to the community foundation now, get immediate tax benefits, and ensure that he or she or a loved one receives fixed quarterly or annual income payments for life.
- **Charitable Remainder Trust.** Your client can contribute cash or property to a trust that pays income to him or her (another named beneficiary) for life on an annual basis. After your client's death, the remainder of the trust transfers to the community foundation and is added to the charitable fund the client selected. The client receives income tax benefits the year he or she establishes the trust.
- **Charitable Lead Trust.** Your client can contribute cash or property to a trust that pays a fixed amount to the community foundation for a fixed term to support the charitable organizations of his or her choosing. At the expiration of the term, the assets held by the trust are transferred to the beneficiaries named by your client. The trust can be structured so that the client receives a charitable income tax deduction when he or she transfers the property to the trust. In addition, he or she will receive a transfer tax deduction.

*PCF offers security to a donor when leaving a planned gift: if the wishes of the donor are no longer feasible (a gift to cure HIV after a cure is found or a gift to an organization that no longer exists), community foundations are able to use local expertise and legal principals to ensure that the gift meets a need as close to the original intent as possible, without the legal complexities of court.*

### **Is it ethical for me to refer clients to community foundations?**

Sometimes attorneys and advisors question whether it is ethical for them to refer clients to community foundations. The issue is whether you are advocating a particular charitable cause. The answer is "no" because of the fundamental difference between community foundations and other charities. Community foundations are established for people to give through them; they are not the "end-users" of charitable dollars. In 2005, Florida's community foundations distributed more than \$69 million to charitable organizations. Most of those funds came from donor advised or donor designated funds. It was money which donors passed through the community foundations to other nonprofit organizations. Community foundations act as "go-betweens" for donors and nonprofits. They are organized to help people give effectively to improve quality of life. They work with your clients to help them give to charities and meet their tax planning goals, and do not dictate the type of gifts their donors can make. By making a referral to a community foundation, an advisor is not advocating a particular cause.

*At The Park City Foundation, we focus on improving the impact of all charitable organizations serving Summit County. We are also able to advise and work with grants made to national and international organizations. To learn more about our diverse and robust nonprofit community, visit our Nonprofit Directory; it's is printable and downloadable. <http://www.theparkcityfoundation.org/Nonprofits/NonprofitDirectory/tabid/202/Default.aspx>*

### **Does the community foundation compete with other charitable organizations?**

Community foundations are unlike other charitable organizations. Community foundations seek substantial gifts from a limited number of individuals and businesses. They are not charities with an annual fund drive. Community foundations apply their funds to a wide range of community needs unlike most charitable organizations that exist to support the needs of a single cause. Most importantly, community foundations exist to enhance the ability of other nonprofit organizations to serve the changing needs of a community.

*Nonprofit services are a core component of PCF's strategic goals. We offer professional development workshops, networking opportunities, and access to resources for local nonprofits. We also offer them sophisticated financial services such as organizational endowments. Most importantly, The Park City*

*Foundation works to expand the amount of people participating in Philanthropy; we target second home owners and can help nonprofits benefit from hard to manage gifts.*

### **Who decides how a community foundation's funds are distributed?**

The professional staff and the "Grants Committee" of a community foundation review all grant applications. The Grants Committee is a group of highly respected community leaders who are knowledgeable about the charitable needs of the community. Individuals who have Donor Advised Funds can participate in the grantmaking process by "suggesting" grants from their named funds; such suggestions are almost always followed.

*Our grants committee has five members: Emily Scott Pottruck (Chair), Andy Blank, Susan Graham Mayo, Susan Pearlstine & Stephen Tyler. Our first competitive grant cycle is occurring in the fall of 2008. Members will first rank 300 word proposals submitted by all applicants. On September 15<sup>th</sup>, those with an average rank of three or above will be asked to submit a full proposal. Decisions will be announced after the December board meeting. Staff does not vote on grant applications. To learn more about the process, visit our website: <http://www.theparkcityfoundation.org/Nonprofits/ApplyforaGrant/tabid/199/Default.aspx>*

### **What kinds of organizations receive grants from community foundations?**

A portion of every community foundation's funds is restricted in use. The majority, however, are unrestricted and are used to respond to new programs, emergency needs and innovative services that might not be started if it were not for the community foundation. Community foundations apply their funds to a wide range of community needs, including arts and culture, children, youth and families, education, environment, health care, human services and scholarships, to name a few.

### **What is the difference between community foundations and the United Way?**

The United Way raises money each year and distributes all that it collects to qualifying organizations (the charitable checkbook) that have been predesignated. Community foundations manage permanently endowed funds that, for the most part, only distribute a portion of income in grants each year (the charitable savings account).

*The Park City Foundation is pleased to work with United Way and its Summit County representative whenever possible.*

### **Why should my client establish a fund with the foundation instead of giving directly to a favorite charity?**

Donors, who want to ensure that their gifts will do the most good in the community and support organizations over the long term, find that community foundations offer them the expertise, flexibility and financial resources to give more to the community while gaining the maximum tax advantages for each contribution. Some donors also prefer to be shielded from fundraisers by giving through the auspices of a community foundation.

### **Can my client give to organizations outside of the community where the community foundation is located?**

Yes. Community foundations can channel donor distributions anywhere in the country, and, in some cases outside the U.S., as long as recipients are nonprofit organizations qualified under Section 501 (c)(3) of the Internal Revenue Code.