



WHAT ARE THE ALTERNATIVES TO A FOUNDATION?

We have mentioned above some circumstances that indicate when a private operating foundation or a supporting organization might be an appropriate alternative to a grant making private foundation.

Another alternative to consider is establishing a donor-advised fund (a “DAF”) with an existing public charity that sponsors a DAF program. Since the sponsoring charity owns the assets in its DAFs, it is responsible for all investment decisions, administrative duties and reporting obligations. As the grant adviser for the DAF you establish, you would have the right to recommend, but not to direct, grants to be made from your DAF. Although the grant adviser can only make recommendations, the charities that sponsor DAF programs generally give full and careful consideration to the grant adviser’s recommendations. A sponsoring charity will not, however, make grants that are prohibited by law or offensive to its charitable purpose or mission, and it may have a grant making policy that prevents it from accepting certain grant recommendations.

When choosing a sponsoring charity, you should read the description of its DAF program carefully to determine whether the program’s terms and restrictions are acceptable to you. Some charities allow each then serving grant adviser to name successor advisers for the DAF, in perpetuity. Others limit the number of successor advisers. Some charities operate national DAF programs, while others, such as community foundations, tend to focus their grant making on a particular geographic area. A sponsoring charity may also require that its DAFs be used primarily or solely to make grants that support its own programs or the programs of its affiliates.

In addition to sponsoring DAF programs, many community foundations operate “donor-designated fund” programs that allow a donor to create a fund that will provide a permanent source of support for a particular charity or charities selected by the donor when establishing the fund. Community foundations may also offer to establish a “field of interest fund” to benefit organizations that operate programs within a donor’s selected field of interest (such as, arts and culture, or youth and families). Each year, the community foundation selects the charities that will receive distributions from its field-of-interest funds. When you establish a DAF, you may also require the community foundation to distribute the assets remaining at your death to a designated fund or field-of-interest fund.

Contributions made to a public charity to establish a DAF or other restricted fund are treated more favorably for purposes of the income tax charitable deduction than are contributions made to a grant making private foundation. Using a DAF can also be helpful for individuals who “bunch” their charitable contributions to exceed the standard deduction amount and maximize their tax savings through itemization. With the current standard deduction, many taxpayers may no longer see tax savings from their giving. One strategy is to pool or “bunch” multiple years of charitable contributions in one year and itemize deductions in that year. A donor may not want to actually contribute more assets to any certain charity in one year, so that donor may wish to contribute several years of charitable gifts to a DAF at one time. The DAF can then be used to distribute grants to various charities over time as the donor desires.

Even if you create your own foundation, your local community foundation can still be a source of important information regarding organizations and programs in your community that need your foundation’s support. By working with your local community foundation, you can help ensure that your private foundation’s efforts and activities are efficiently coordinated with the philanthropic activities of other organizations in your community.