



# **IS A DONOR-ADVISED FUND IN YOUR PRIVATE FOUNDATION'S FUTURE?**

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## IS A DONOR-ADVISED FUND IN YOUR PRIVATE FOUNDATION'S FUTURE?

A private family foundation can become a bigger headache than anticipated. Does one or more of the following statements describe your situation?

- We're fed up with the aggravation and cost of complying with the complex tax rules and tax reporting associated with a private family foundation.
- We struggle to get board members together for meetings.
- Decisions on foundation matters are a constant source of family conflict.
- Our family's interest has simply waned when it comes to foundation matters.

Whatever the circumstances, a potential solution is to transfer the foundation's assets to a donor-advised fund with the Renaissance Charitable Foundation (RCF).

## WHAT ARE THE BENEFITS OF CONVERTING A PRIVATE FOUNDATION TO A DONOR-ADVISED FUND?

### Reduced Administration Burden

Because RCF assumes responsibility for governance of the fund and management of fund assets, an RCF donor-advised fund significantly reduces your administration burden and frees you to focus on grantmaking—the real source of fulfillment from philanthropy.

### Lower Costs

The administration fees charged to a RCF donor-advised fund are typically lower than the annual expenses incurred to operate a private foundation. Let us help calculate the savings based upon your current expenses.

### No Required Tax Returns and Reporting

A private foundation must annually file IRS Form 990-PF. The foundation may also be required to file regulatory reports with the Secretary of State and/or Attorney General of the state where the foundation is incorporated or has its principal place of business. While the sponsoring charity of a donor-advised fund program must annually file returns and reports, individual donor-advised fund accounts are exempt from these annual filing and reporting requirements.

### Anonymity

The Form 990-PF that your private family foundation is required to file is open to public inspection. In fact, these forms are available for free at [www.guidestar.org](http://www.guidestar.org). Required disclosures include the identity of board members and their compensation, if any; the identity of grant recipients and the amount granted; the composition of the foundation's investment portfolio and its value; and a summary of the foundation's expenses by category. In addition, it is difficult to make anonymous grants from a private family foundation when the foundation is the entity writing the check. However, when you facilitate a grant from your donor-advised fund, you can either choose to be recognized or give anonymously on an individual grant-by-grant basis.

**Preferred Income Tax Treatment for Contributions**

Charitable contributions to a donor-advised fund are income tax deductible at a larger amount than the same contribution to a private family foundation. Therefore, transitioning your private family foundation to a donor-advised fund will enhance the deductibility of future contributions. This effect is enhanced if you plan to contribute stock in a family business or real estate.

**Due Diligence Reviews for Grants**

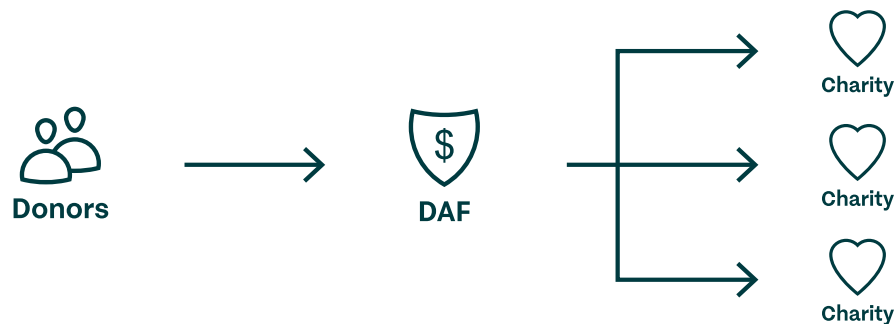
Private foundations are required to ensure the recipient of any grant is a qualified domestic charitable organization. RCF will complete this step automatically before a grant is made from a donor-advised fund. RCF takes the headache out of grantmaking.

**No Minimum Distribution Requirement**

A private family foundation must distribute at least 5% of its net investment assets annually to qualifying charities. Donor-advised funds do not have a minimum distribution requirement.

**No Excise Tax on Net Investment Income**

A private family foundation is subject to an annual excise tax of up to 2% of its net investment income. Donor-advised funds are not subject to this tax.



**WHAT IS A DONOR-ADVISED FUND?**

A donor-advised fund is a segregated account maintained at a public charity from which a donor family may make advisory grant recommendations. In a common example, a donor contributes cash or other approved assets to the fund. The public charity sponsoring the donor-advised fund then invests the contributed funds. From that time on, the donor and the donor's family may periodically recommend grants to qualifying public charities. Due to its flexibility and ease of use, RCF offers families an exciting alternative to the challenges of operating and maintaining a private family foundation.

## WHO MAY BE A GRANT ADVISOR TO MY DONOR-ADVISED FUND? WHAT ARE THEIR RIGHTS AND RESPONSIBILITIES?

In the typical case, when a private family foundation closes out (terminates) by transferring its assets to a donor-advised fund, the foundation's board assumes the grant advisory role on the new donor-advised fund. In some cases, it may be appropriate to divide the foundation's assets into two or more donor-advised funds with different board members assuming the grant advisory role for each new donor-advised fund.

### **In general, a grant advisor has the following rights with respect to a donor-advised fund:**

- The right to make periodic grant recommendations from the fund.
- The right to make final grant recommendations through a written instrument at death.
- The right to name successor grant advisors while living, or through a written instrument at death.
- The right to receive quarterly reports from RCF that describe the contribution, grant, and investment activity of the donor-advised fund for the period.

### **A grant advisor is responsible for:**

- Recommending grants to qualified public charities.
- Recommending grants that do not result in a direct or indirect benefit to the grant advisor or a member of the grant advisor's family.

It is important to understand that the ultimate authority for approving a grant recommendation must rest with RCF's board of directors and the board's authorized representatives in order to preserve RCF's exempt public charity status and therefore avoid the termination tax on termination of a private family foundation.

## HOW ARE DONOR-ADVISED FUND ASSETS INVESTED?

Once your private family foundation's assets have been transferred to a donor-advised fund at the Renaissance Charitable Foundation, the family may recommend a trusted financial advisor to manage the investments in the donor-advised fund on RCF's behalf. The selected investment advisor may use any publicly traded security in the Fund's investment portfolio. For any investment strategy involving assets other than publicly traded securities, prior approval is required.

## WHAT IS THE PROCESS TO CLOSE OUR PRIVATE FAMILY FOUNDATION IN FAVOR OF A DONOR-ADVISED FUND?

The process to close out a private family foundation varies from state to state. However, the following common steps should be taken before distributing your foundation's assets to establish your donor-advised fund:

### 1. Initial steps to close out private family foundation.

- a. Contact the office of the state Attorney General that has regulatory authority over private family foundations to determine any state-specific requirements applicable to terminating a private foundation.
- b. Private Family Foundations organized as a nonprofit corporation should notify the state agency that administers corporations, usually the Secretary of State, of its intent to cease operations.
- c. Private Family Foundations organized as a charitable trust should contact an attorney to determine if court approval is required to terminate the trust.

### 2. Determine if private family foundation has any outstanding obligations that must be satisfied prior to termination.

- a. Typical obligations include: liability for the 2% excise tax on net investment income, liability for unrelated business income tax, outstanding grants that are still subject to expenditure responsibility, and outstanding fees due to accountants, attorneys or other professional service providers.
- b. Create a reserve for anticipated expenditures throughout the termination process.

### 3. Work with Renaissance consulting staff to create the donor-advised fund Account.

- a. Complete the donor-advised fund application to capture accurately your wishes with respect to the structure of your new donor-advised fund.
- b. Transfer the foundation assets, less what was set aside as the reserve amount, to the new account established with the Renaissance Charitable Foundation.

### 4. Prepare and file final IRS Form 990-PF

- a. Include a statement that explains the reason for the termination. The statement should provide the foundation board's decision to terminate the foundation and the names and addresses of the recipient's of the foundation assets.
- b. Archive the foundation's financial records, tax filings, business records, property files, board minutes, annual reports contracts, bank statements, grant records, and financial reports for a minimum of 10 years.

*Renaissance can help you determine the benefits of converting your private family foundation to a donor-advised fund at the Renaissance Charitable Foundation. Our consulting staff will guide you through the process and assist with the close out process outlined above. For more information and assistance, please contact our consulting staff at 866-803-0389 or visit [www.renaissancecharitable.org](http://www.renaissancecharitable.org) to read our donor-advised fund Program Circular.*