Measure Twice, Cut Once: Structural Advice for Private Foundations

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As my father likes to say, "Measure twice, cut once." Some mistakes can be costly to fix. As a Client Advisor at Massey Quick, I've worked with a number of individuals and families with inappropriate life insurance policies, overfunded retirement plans, and even an absence of backup executors or trustees named on important legal documents. Left unattended, the consequences can be costly in terms of both dollars and headaches. Proper planning is key.

Many clients we work with feel strongly about giving back to their communities, alma maters, and favorite charities through donor advised funds, low basis stock contributions, or family foundations. If you are unfamiliar with any of these strategies or would like to learn more about them, please don't hesitate to contact your client advisory team. They each offer unique advantages and can lead to significant tax savings when executed appropriately. Private foundations are great solutions for those looking to capture the tax benefits of charitable donations while retaining investment control over the assets and promoting family philanthropy. It is common for donors and/or family members to remain actively involved in the grant-making process with a private foundation which helps future generations learn about the importance of philanthropy, budgeting, and cash management. If you currently have a private foundation, or are thinking of establishing one, we encourage keeping the following planning tips in mind.

- **Distribute at least 5% of net investments assets each year.** Failure to do so can result in an excise tax of 30% on the undistributed amount. Qualifying distributions include both grants to charities as well as certain administrative expenses related to the foundation's operations.

- **Keep detailed records.** It is important to keep detailed records of income, expenses, and grants to document compliance with IRS regulations. Also remember to file Form 990-PF annually; failure to do so for three consecutive years can result in loss of the foundation's tax-exempt status.

- **Think again before using margin, leverage, or options**. Although private foundations are generally exempt from federal and state income tax, the use of these investment strategies may trigger unrelated business taxable income (UBTI) which is taxed at corporate tax rates.

- **Consider the holding period when gifting appreciated securities**. Gifts of securities to a foundation held at short-term capital gains (less than one year) are tax deductible only up to their cost basis. Alternatively, gifts of securities held at long-term capital gains may be deductible up to their full fair market value.

That said, private foundations can help achieve a variety of goals and are often supplemented with special charitable trusts that offer additional estate tax planning opportunities as well. Again, careful planning and consideration is key. Please speak with your Client Advisor about how these powerful legacy planning tools may help serve to complement your current financial plan.

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