

Terminating a Private Foundation



If you are involved in a private foundation, and have found that the time and costs involved are greater than you expected, you might consider terminating your private foundation by transferring some or all of the assets to a donor advised fund (DAF).

Administrative paperwork, expense, research on charitable organizations, and ongoing legal and financial due diligence are only some of the factors to consider when maintaining a private foundation. For the founder or family members the work can be drudgery.

Over time, private foundations often struggle with the following issues:

- The original purpose of the foundation no longer has the urgency it once did.
- Financial and administrative factors make it difficult for the foundation to operate effectively.
- The original founder may be slowing down, and the children or grandchildren may not share his/her passion.
- Busy schedules and geographic dispersion make it increasingly difficult to provide the administrative attention.
- The founder desires that his or her children focus on the family's philanthropy, not on the burden of foundation administration.

These considerations, along with the increased recognition of advantages of a donor advised fund as a family foundation alternative, have prompted families to terminate their private foundations and transfer assets to donor advised funds at AEF.

American Endowment Foundation (AEF) Donor Advised Fund – a simple & effective alternative

Active Role for the Donor:

An AEF Donor Advised Fund offers donors unique ways to manage giving. The Fund provides a tax-wise way to support charities on a flexible timetable and build a lasting legacy for generations to come.

Lower Ongoing Costs:

The cost to maintain your DAF is low (1% or less of Fund balance.)

Contribution Flexibility:

AEF can accept and hold a wide array of asset types. In comparison, a donor's financial interest in a business may be significantly limited in a private foundation.

Better Tax Benefits:

Contributions to a DAF receive better tax benefits than contributions to a private foundation. See Tax Benefits

Low Administrative Burden:

In contrast, donors to DAFs have far fewer responsibilities. Record keeping is greatly simplified. AEF assumes all back-office tasks, such as compliance monitoring, state and federal filings, verifying each grantee's tax-exempt status, and grant disbursements in accordance with IRS guidelines. ***See Comparison***

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Flexible & Simple Grant-making Options:

Much like a private foundation, families can set up their DAF to reflect their family's name and values, and recommend grants from their fund to a wide range of charities.

Privacy:

A donor advised fund at AEF provides donors flexible solutions in maintaining privacy. In comparison, private foundations offer little privacy and no anonymity.

With a private foundation, all contributions and distributions are public record. A DAF ensures:

- Contribution privacy
- Investment privacy
- Administration privacy
- Grant-making privacy and grant-making anonymity

No Excise Taxes:

The 2% annual excise tax that a private foundation pays on the net investment income does not apply to a DAF.

No Payout Requirement:

Donor advised funds are not required to comply with the minimum 5% payout in making annual grants and distributions.

Investment Management:

Assets in an AEF Donor Advised Fund can be invested in a wide array of investment choices. *See Investments*

AEF gives donors the ability to maintain a relationship with an existing financial advisor. The selected advisor can provide the Fund an investment approach that is customized and an individually managed account. AEF does not pool investments with other foundation funds.

The Mechanics of Terminating a Private Foundation

Section 507 of the Internal Revenue Code permits termination of a private foundation in either trust or corporate form and the distribution of its assets to a public charity. A private foundation can simply transfer its assets to a donor advised fund at the American Endowment Foundation and file the final 990-PF to the IRS afterwards.

American Endowment Foundation qualifies as a public charity into which a private foundation may distribute all or part of its assets. A transfer of all assets not only releases the private foundation from the reporting requirements of the Code, but also terminates the payment of the excise tax imposed on private foundations. State law may require additional steps to terminate the foundation's legal existence as a nonprofit corporation or charitable trust. Creating a Donor Advised Fund at AEF can be accomplished by completing a simple application.

Some transfer their assets in a lump sum; others start with a minimum contribution of \$10,000, and then add to their fund over time.

Foundations considering a transfer should get help from an attorney with experience in handling this kind of transaction.