American Endowment Foundation

# Private Foundation Termination Case Study

A donor couple set up a private foundation to support their family's multiple charitable interests. The couple were the sole trustees of the foundation.

The donor couple met with their estate planner. The donor couple discussed how they liked some aspects of the private foundation, but had some concerns as well:

-They felt the legal, accounting, and other administrative costs of maintaining the foundation were too high relative to its size.
-They were frustrated with the 5% minimum distribution requirement and paying excise tax on their net investment income.
-They realized there was nothing private about the foundation, and were besieged with grant requests and questions about the foundation.
-They realized it was unlikely that either of their children were good candidates for taking over the administrative burdens of maintaining the foundation after they were gone.

Based on the recommendation of the estate planner, the donor's decided to terminate their private foundation and transfer its assets into a donor advised fund (DAF). Here were some of the advantages:

-It would be less than their current administrative costs.
-The DAF had no minimum annual distribution requirements nor would they lose any of their investment gains by paying excise taxes.
-The DAF offered greater privacy for donors; grants could even be made anonymously.
-The DAF placed very little burden on donors and their successor advisors.

Furthermore, certain gifts such as closely-held stock, receive a better tax treatment when contributed to a DAF as opposed to a private foundation.

**Here is a diagram of the transaction:**