

## A Happier Alternative? Moving From a Private Foundation to a Donor-Advised Fund



The number of [private foundations](#) in the United States is nearing 150,000 with combined assets topping \$1 trillion, so it's no wonder that a lot of people immediately think about establishing a private foundation when they begin to explore structuring their charitable giving activities. You're likely working with several clients who've established private foundations somewhere along the way.

Recently, though, the growth of [donor-advised funds](#) to nearly 2 million in number—with grants from these vehicles reaching \$50 billion in some years—signals that many people are starting to use both a donor-advised fund and a private foundation. Some of your clients may even be considering transferring a private foundation's

assets to a donor-advised fund at the Chester County Community Foundation to carry out the family's mission. This particular trend is on the rise, so take a moment to skim this checklist to help guide conversations.

**“Reality check” the hassle.** Day-to-day management and administration of a private foundation can become time-consuming, especially as the responsibilities fall to second- and third-generation family members. Even the first generation may realize at some point that administrative work is taking too much focus away from nonprofits, the community, and making grants.

**Review the tax rules.** The IRS's [rules](#) related to investments, distributions, and “[self-dealing](#)” are complex. Over time, family members may become frustrated navigating the potholes of tax compliance. For instance, if a client plans to transfer all or part of a family business, now or in the [future](#), it is critically important to communicate the [benefits](#) of using a donor-advised fund at the Community Foundation versus transferring the business interests to a private foundation (which can be disastrous from a tax standpoint).

**Lean on the Chester County Community Foundation.** Our team is happy to walk alongside you and your client through the steps to terminate a private foundation and move the assets to a donor-advised fund at the Community Foundation. The first step is for the board of the private foundation to approve the termination and capture that approval in meeting minutes or a consent of directors.

**Set up a donor-advised fund.** Your client can establish a donor-advised fund at the Community Foundation and choose the name (e.g., Smith Family Foundation Fund). Similarly, selection and succession of fund advisors (who will handle grantmaking) can mirror the private foundation's board structure. As a result, the donor-advised fund will look and operate a lot like the private foundation.

**Make a grant.** The private foundation will distribute (“grant”) most of its net assets to the newly-established donor-advised fund. The private foundation will need to be sure it pays all of its liabilities and expenses before accounts are closed, so your clients will want to leave a reserve in the private foundation to cover final bills before completing the termination.

**Finalize the termination.** As long as the private foundation corporate entity is in good standing according to state laws, termination for tax purposes will be automatic and smooth because assets were transferred to the community foundation, a longstanding organization. The private foundation will then simply file an informational tax return with the Internal Revenue Service for its final year (even if it is a short tax year). The final step is for the private foundation to

take any steps required for termination under the laws of any and all states in which it was registered, especially if the private foundation was organized in corporate form.

Whether your client is ready to transfer a private foundation this year or is simply evaluating options, please give our team a call. We're happy to help!

For more information, contact the Chester County Community Foundation:

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