

Private Foundations: Pros and Cons

Why form a private foundation? For hands-on involvement in giving, for giving in creative ways, and to encourage younger generations to learn the right lessons about money.

1. Disadvantages

- A. Contributions are deductible up to 30% of the donor's income, not the normal 50%.
- B. Setting up a foundation may cost up to \$10,000.
- C. Running a foundation will cost up to 1% of its assets.
- D. A foundation can be efficient at \$1 million but \$2 million is more realistic.
- E. A foundation is a business and must make decisions about taxes, investments, distributions, and administration.
- F. A foundation formed in a will limits its effectiveness since the donation is offset by estate income and only then to 30%. Its opening principal is reduced by the amount of the lost deduction in the donor's hands.

2. Advantages

- A. The donor and/or the board control the distributions and the recipients.
- B. The donor's good work continues after death and encourages others to do the same.
- C. The younger generations (even those yet unborn) are taught to handle money responsibly and come to respect the donor's vision which has shaped their character.

3. Gauge your commitment.

- A. What do you want to do?
- B. How will you measure success of the foundation?
- C. How long after formation will you want to be involved?
- D. Who will help you with the foundation's operations and routine decisions?