If charity is important to you and you want to build a philanthropic legacy, then starting a family foundation may prove beneficial. A family foundation can form a legacy of community involvement and responsible citizenship for generations to come.

What exactly is a family foundation? The Council on Foundations defines it as one whose funds are derived from members of a single family, in which the donor and/or the donor’s relatives play a significant role in governing and/or managing the foundation throughout its life.

Family foundations, like the families who create them, come in all shapes and sizes, with equally diverse motivations, mission statements, and methods for pursuing their philanthropic objectives. In general, there are two types of family foundations: private foundations and supporting organizations.

- **A private foundation** is the more flexible and controllable of the two entities. By establishing a fund into which charitable gifts can be placed, private foundations allow donors and other family members to take charitable deductions in the year contributions are made, without having to make an immediate decision regarding which charity or charities to support. Although private foundations maintain their own Board of Directors and control their own funding decisions, they have less attractive tax benefits than supporting organizations. In addition, the IRS requires private foundations to distribute a minimum of 5% of their assets each year and to pay an excise tax of 1% to 2% on their investment income.

- **Supporting organizations** are neither required to pay an excise tax nor distribute 5% of their assets each year. But what they enjoy in enhanced IRS treatment, they sacrifice in terms of governance and grantmaking control. For instance, supporting organizations typically can distribute funds only to those charities the family designates in its charter when the foundation is established. Private foundations, on the other hand, can change beneficiaries at will. Furthermore, a supporting organization requires that donors relinquish full control over the organization’s governance. In some cases, the majority of the organization’s Board of Directors must be made up of members appointed by the charity or charities supported.

**Special Tax Treatment**

Gifts made to family foundations are generally deductible for income tax purposes. These deductions differ depending on the structure, the type of property contributed, and the donor’s adjusted gross income (AGI).

Both the donor and the foundation avoid potentially steep capital gains taxes on appreciated assets, as long as the assets are used for the purposes for which the foundation was established. Perhaps most important to donors and their families, no estate or gift taxes are assessed against assets that have been transferred out of an estate into a foundation.

**Special Considerations**

Whether you are able to pursue a charitable agenda during your lifetime depends largely on your income needs and those of your dependents. While the tax deductions associated with most charitable giving reduce the cost of making charitable gifts, an individual’s own needs will always be the determining factor. To address both goals, individuals may want to consider combining a family foundation with other charitable vehicles such as a charitable remainder trust or charitable lead trust. By so doing, you and your family may be able to enjoy an income stream during your lives, earn considerable tax savings, and maintain a significant degree of control over family assets -- all while fulfilling your charitable goals.

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