

Community Foundations Offer Year-End Tax Solutions

When clients anticipate owing a substantial sum to the Internal Revenue Service at year-end, they may look to their professional advisors to recommend alternative destinations for their hard-won assets—destinations that may help further their charitable goals.

Perhaps your client sold his business for \$4 million in May, or maybe he simply had a high-income year. The value of his taxable assets has jumped substantially, and he needs a creative solution by December 31. At this point, many professional advisors point their clients toward community foundations, which are highly knowledgeable about local charities and not only support individuals' philanthropic beliefs but also offer higher deduction rates than private foundations.

"We often get referrals from professional advisors guiding their clients through year-end tax issues," says Kimberly Kur, senior advancement officer of professional advisor services for the Arizona Community Foundation. "Attorneys, CPAs, financial planners, trust officers and insurance agents send their clients our way."

Tax Benefits

When it comes to tax savings, community foundations hold certain advantages over private foundations because they qualify as public charities.

Cash donations: Donors to community foundations can deduct up to 50 percent of their adjusted gross income (AGI), with a five-year carryforward, Kur says. So if a client has an AGI of \$100,000 and they give \$50,000 in cash to set up a fund, they may then be able to deduct \$50,000 that year. On the other hand, if the same client gives to a private foundation, they can only deduct up to 30 percent of their AGI, or \$30,000 on a \$50,000 contribution, and would have to carry the balance forward.

Appreciated assets donations: The same pattern follows with appreciated property, like real estate or securities held for the long-term, Kur says. When a client donates appreciated property to a community foundation, the client can receive a deduction of up to 30 percent of their AGI, with a five-year carryforward. Those giving their appreciated assets to a private foundation, however, have a lower deduction limit of 20 percent.

Time Constraints

Establishing a private foundation or trust takes time—something often in short supply for investors looking at a December 31 deadline. Yet it only takes one day—sometimes even only half an hour—to set up a fund at a community foundation. "Most community foundations make it easy," says Christopher Hoyt, a professor of Law at the University of Missouri (Kansas City) and the author of *The Legal Compendium for Community*

Foundations. “Usually there is a short gift agreement where the donor agrees to abide by the policies, and then they include a check.”

Fund Options

Community foundations offer a number of funds which can help clients find tax solutions, including, but not limited to:

- **Donor Advised Funds:** Creating a donor advised fund is one of the most popular paths for clients who want to make a donation before January 1 but haven’t decided exactly which nonprofit to support. After setting up the fund, donors can take their time recommending charities to support, says Greg Kruzell, estate and business planning attorney with Scottsdale, Ariz.-based Braun Siler Kruzell PC. “You can deduct that amount today, even if it’s distributed out over a period of months if not years,” adds Kruzell, who has referred numerous clients to the Arizona Community Foundation. “It gives you a lot more time to go through the process.”
- **Field of Interest Funds:** These funds distribute money to charities focused on one specific area, such as cancer research or music education. Donors can rely on the knowledge of community foundation employees who will direct grants to charities that are best suited to carry out the fund’s purposes.
- **Designated Funds:** Another option is a designated fund, designed to distribute funds to one specific charity over time. This ensures that a small charity won’t be overwhelmed by a large donation it can’t handle. Not long ago, one of Kruzell’s clients wanted to make a large six- to seven-figure donation to a charity that typically pulled in between \$200,000 and \$400,000 a year. “I just had the obvious question—what will they do with that?” he says. “Are they going to be smart with it?” A designated fund alleviates this concern.

A Creative Resource

When clients need an immediate and creative solution to their tax issues, community foundations serve as an excellent resource—not just for philanthropic reasons, but for tax purposes, too. “It’s much more time- and cost-effective for clients to work within the community foundation than do it themselves,” Kruzell says.

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