

Taking Philanthropy Public

When a client takes a company public or enjoys the benefits of a liquidity event, it is an excellent time to consider a major philanthropic gift. By donating to a community foundation, your client can provide significant support for local programs while maximizing the tax benefits.

When the Blackstone Group went public in late June, the lavish media coverage sprang out of the business pages and into the main headlines. An IPO or other liquidity event can also mean big news for local communities, as clients seize the opportunity to consider the potential effect of their new wealth and increase their charitable giving.

For example, when the energy company Venoco made its initial public offering last year, founder Tim Marquez and his wife, Bernadette, donated stock worth \$37.5 million to The Denver Foundation. Much of the gift will fund the newly created Denver Scholarship Foundation, which will help local public high school students with the costs of higher education.

“The gift from Tim and Bernie Marquez is the largest in The Denver Foundation’s history, and we’re honored they’ve chosen us to help them meet their charitable goals,” says Rebecca Arno, the foundation’s Vice President of Communications. “Community foundations are especially good at helping donors incorporate philanthropy into their financial planning related to business sales.”

Practical Considerations

For a philanthropic client benefiting from a liquidity event, advisors agree that tax efficiency needs to be the first consideration. “The community foundation is the vessel through which people can make substantial gifts while getting the maximum allowable tax benefits, which you can’t do with a private foundation,” says Philip T. Temple, a partner at the law firm McCarthy Fingar LLP of White Plains, NY. “The avoidance of capital gains combined with the charitable income tax deduction enables people to give more than they would have otherwise. The most important part is not to make the gift too late in the game.”

Chris Nicholson, Director of Business Development at The San Francisco Foundation, seconds this point. “If the donation takes place too closely to the liquidity event, the client will be taxed on capital gains,” Nicholson explains. “Clients need to work with their advisors to safeguard the tax benefits generated by avoidance of the capital gain.”

The Meaning of Wealth

Though a liquidity event such as an IPO or the sale of a business is obviously a happy, exciting time for clients, it also brings its share of anxiety. “They may be feeling stressed about how they are going to manage their wealth and what it means to be wealthy,” says Jennifer Rowe, Director of Planned Giving at Silicon Valley Community

Foundation. And many clients might not be sure where to start. “Some of our donors have spent so much time building and running businesses that, by the time they come to us, they haven’t had a chance to develop relationships with local nonprofits and community-based organizations,” Nicholson says.

The knowledge and resources of a community foundation can help answer the big-picture questions raised by a liquidity event. “The community foundation identifies local needs and brings in not only our expertise but the expertise of others—whether it’s an accountant, lawyer, or financial advisor—to help the donor come up with the giving option that makes the most sense,” Rowe says.

A community foundation is also flexible enough to accommodate donors who want to remain intimately involved with the charitable process while also avoiding the tax implications of starting a private foundation. “The big difference between the older generation and the new generation is the hands-on approach to charitable gifts,” Temple says. “If you want to maintain a continuing advisory power, a donor-advised fund through a community foundation is a very valuable tool for spreading your charitable dollars around.”

Rowe, of Silicon Valley, echoes this note. “So much of the wealth in our area was created by relatively young entrepreneurs who are used to having a lot of say about what’s going on. They approach philanthropy in the same way—they want to understand how each step works, and a community foundation can make that happen,” Rowe says.

A Fundamental Event

In an ideal scenario, a liquidity event can be as momentous an occasion for a community as it is for donors and their families.

“This is a fundamental event in a person’s life, on the level of graduating from college or having a first child,” Nicholson says. “That’s why people should consider partnering with their regional community foundation, because it can help the individual maximize the impact of that event to, say, turn around an underperforming school or provide job training for low wage earners. From an emotional, psychological, and financial standpoint, it’s a huge moment, and the person can channel this life change to benefit their communities.”

Jessica Winter is a freelance writer based in New York City. Copyright 2007, Council on Foundations. Used with permission