



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 may be working with clients who've established private foundations somewhere along the way.

Recently, though, the growth of Donor Advised Funds (DAF) 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 DAF and a private foundation. Some of your clients may even be considering transferring a private foundation's assets to a DAF at Whitefish 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 Whitefish Community Foundation versus transferring the business interests to a private foundation (which can be disastrous from a tax standpoint).

Lean on Whitefish Community Foundation’s expertise. 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 DAF at Whitefish 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 DAF at Whitefish 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 DAF 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 DAF. 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 Whitefish 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 us a call. We're happy to help!