



The Art of Philanthropy

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What is Philanthropy?

Simply put, “philanthropy” is the vehicle for providing continuous charity. While most of us may give to charity on a regular basis, most of us do so spur-of-the-moment or when we feel we have a little extra money to give. Philanthropy allows a person or groups of people to give to charitable organizations consistently over a long time period.

Some of the largest philanthropies have existed for decades and are large enough to provide an endowment of giving to last in perpetuity. While you can give your own money to such large philanthropies to benefit your favorite charities, it’s not necessary to do so. In fact, you can begin your own philanthropic legacy for as little as \$5,000.

Types of Philanthropies:

Private Foundations

Charitable Trusts

Public Foundations

Community Foundations

Donor-Advised Funds

Private Foundations

A private foundation is a legal entity established by an individual, family or group of individuals for philanthropic purposes. The Bill & Melinda Gates Foundation is the most prominent and largest example of a private foundation. Corporations can also establish private foundations as well as charitable organizations. The largest private foundations are endowed with billions of dollars in assets.

While most private foundations have under a million dollars in assets, establishing one is a beneficial philanthropic strategy only if it has at least several million dollars in assets.

The reason is the costs to maintain such a philanthropy. As a legal entity, a private foundation has corporate and tax filings to maintain on a regular basis and myriad administrative tasks that go with any corporate endeavor. The overhead costs alone are typically too expensive and time-consuming for most of us, as individuals or as families, to establish such a philanthropic structure. You want your giving to achieve the most bang for the buck.



Charitable Trusts

Charitable trusts are often established by wealthy donors that provide a philanthropic legacy while providing income and/or estate tax advantages to the donor. Typically, a person has an attorney draft a trust document, established for charitable purposes. An asset or assets are funded into the trust and the donor continues to enjoy the use of the asset for a period of years or until the donor dies. After death, charities become the beneficiaries of the trust assets.

The administrative burden with charitable trusts is not as onerous as with private foundations. However, meticulous financial records must be kept as well as the trust filing an annual tax return.

For a charitable trust to be useful as a philanthropy, due to annual attorney and accounting fees, it needs to be funded with at least \$200,000 in assets.



Public Foundations

Public Foundations are legal non-profit entities established to provide grants to a charity or charities from donations elicited from the general public. Public foundations can benefit (or be) a single institution, such as a hospital or university, or can benefit a wide variety of interests in a single community. Donations to public foundations usually involve a larger tax break to individual donors than donations to private foundations because the donor does not have ultimate “control” over who will receive the donation or grant.

Public foundations are more beneficial to donors who want to establish an initially modest philanthropic legacy. Initial thresholds to establish a philanthropic fund vary from \$5,000 - \$50,000. Oftentimes these thresholds can be met over a 2 or 3-year period.



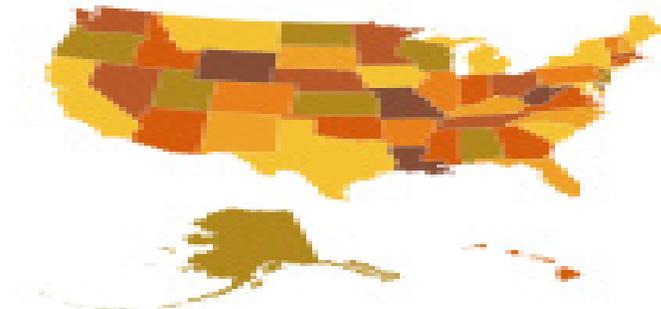
Community Foundations

Community Foundations are a type of public foundation. Such a foundation provides grant money to charities operating in a particular city, county or region. There are over seven hundred community foundations operating in the United States.

A community foundation manages the charitable funds of its donors. Anyone can establish a fund with a community foundation as long as it meets the minimum requirements. While most require \$10,000 - \$50,000 to initially establish a charitable fund, there are some community foundation that have only a \$5,000 threshold. And the ones that require a higher threshold will usually allow the minimum to be met over multiple years. The operating expenses of such a fund are much less than the fees associated with maintaining a private foundation or charitable trust.

A donor's fund can be "unrestricted" in that it goes to any needs in the community the foundation sees fit to make a grant. However, a donor can also establish a fund for a particular charity or field of interest. For example you could establish a charitable fund to specifically benefit "the Boys and Girls Club of Manassas" or you could establish a fund meant to benefit "underprivileged youth in Prince William County."

While community foundations are very beneficial institutions, some people like to be very private with their philanthropy. Plus, most community foundations require a minimum threshold of establishing a fund greater than \$10,000.



Donor-Advised Funds

Donor-Advised Funds, established privately, can provide the best combination of private and public philanthropy. Instead, you have this fund set up with cash or an asset with the assistance of your financial advisor and through wealth managers who specialize in managing philanthropic investments. Once established, you can make annual or more periodic donations to the charities of your choice.

What is unique about this option is you can give to your favorite charities anonymously, if you desire, and you can start your philanthropic giving for as little as \$5,000. Once the fund is established, you can add assets and cash to it at any time; you can have friends and family add contributions to it; and you can name successor advisors in case you pass away. Establishing such a fund, even a modest amount, can be a great vehicle for starting a legacy of multi-generational giving in your family.



Helpful Links

1. For more information about donor advised funds go to:

www.heritagefinllc.com/files/enhancing_generosity_to_support_nfp.pdf

2. For more information about Community Foundations operating in Northern Virginia:

The Community Foundation for Northern Virginia

www.cfnova.org

The Community Foundation for the National Capital Region

www.thecommunityfoundation.org

3. For more general information about charitable foundations:

Council on Foundations

www.cof.org

www.cof.org/foundation-type/community-foundations

4. For more information about establishing a charitable trust as part of your estate plan, please contact Richard Phillips of Hometown Estate Planning at **(571) 208-0425**.

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About the Presenter

Richard Phillips is a former trial attorney who now devotes his work exclusively to estate planning law and assisting families achieve peaceful wealth preservation. He received a Bachelor of Arts Degree from James Madison University in 1995 and a Juris Doctor Degree from George Mason University School of Law in 1999. He is a member of the Prince William Chamber of Commerce and occasionally donates his legal experience to non-profit organizations. His hobbies outside of work are reading, creative writing, music and hiking.