



THE CHICAGO
COMMUNITY TRUST
AND AFFILIATES

PRIVATE FOUNDATIONS SERVICES

For many individuals and families, the benefits of establishing a private foundation are outweighed by the cost, time and administrative burden that comes with managing the foundation. The Chicago Community Trust is a fantastic alternative that maximizes the fun of philanthropy while eliminating the administration. For those who have an existing private foundation, or for those who are deciding which charitable giving vehicle makes sense for them, consider the options and services the Trust provides.

OPTION 1 - CONVERSION TO A DONOR ADVISED FUND

One of the most common ways that the Trust works with private foundations is through a conversion from a foundation to a donor advised fund. Private foundations require ongoing administration that can be expensive and time consuming, including filing annual tax returns, registering with state and federal agencies and annual meetings of foundation directors. For many individuals involved in the management and operation of a private foundation, the administrative burdens can be frustrating and can take away from the resources available for supporting nonprofits.

The Trust can help. We have worked with many private foundations, small and large, to convert the foundation to a donor advised fund at the Trust. In doing so, the directors of the foundation continue recommending grants and supporting nonprofits in their community, but without the expensive burdens that come with managing the foundation.

Benefits of converting a private foundation to a donor advised fund with the Trust include:

- **No administration:** The Trust takes care of all federal and state filing and reporting requirements.
- **Hassle-free grant making:** Advisors to the fund can continue to support their favorite nonprofits across the country.
- **No minimum distribution:** Unlike private foundations, donor advised funds are not required to distribute a minimum amount each year, allowing donors and advisors greater flexibility.
- **Investment flexibility:** Donors who establish a fund with a balance of \$1 million or more may recommend their own investment manager and investment strategy for their fund.
- **Anonymity:** Private foundation tax returns are subject to public inspection, meaning anyone can find out who is a substantial contributor to, or a director for, a private foundation. The grants that a foundation makes each year are also included on the tax return of the foundation. A donor advised fund allows a donor to recommend grants anonymously when preferred, providing greater privacy to donors and their families.

For most private foundations, terminating and transferring to a donor advised fund with the Trust is straightforward. After opening a fund with the Trust, the foundation will transfer its assets to the Trust and then begin the work of closing down the foundation. The managers of a terminating foundation should consult with an attorney or tax professional to ensure that the termination follows the requirements set forth under state and federal law.

–Continued

OPTION 2 - ESTABLISH A FUND INSTEAD OF A PRIVATE FOUNDATION

Individuals and families who are in the process of deciding which giving vehicle is right for them should consider establishing a donor advised fund at the Trust instead of creating a private foundation. As the section above highlights there are a number of benefits to setting up a donor advised fund instead of a private foundation, and additional benefits include:

- **No set-up costs:** There is no cost to establish a donor advised fund with the Trust. Individuals who want to establish a private foundation will need the guidance of attorneys or accountants to file the necessary paperwork with state and local agencies — and that guidance comes at a cost.
- **Better tax deductibility:** Donors who contribute cash to fund a donor advised fund may deduct up to 60% of their adjusted gross income from their federal income taxes, compared to a maximum deduction of 30% of adjusted gross income for cash contributions to private foundations. The advantages are even greater for entrepreneurs and business owners who wish to contribute shares in a privately held company to a fund with the Trust.
- **Family philanthropy:** Private foundations, or “family” foundations, are not the only way to engage family members in philanthropy. With a donor advised fund, family members or friends can share in the decision making as advisors or successor advisors to a fund. Further, the Trust’s Donor Services Team can assist philanthropic families by hosting family meetings, coordinating site visits and identifying organizations that a family may want to support.

If you and your advisors are currently in the process of picking a giving vehicle, feel free to call us and hear more about our services and why a donor advised fund may be a better option than a private foundation.

OPTION 3 - IMPACT INVESTING THROUGH THE CHICAGO COMMUNITY TRUST

In 2017, The Chicago Community Trust, the John D. and Catherine T. MacArthur Foundation and Calvert Impact Capital launched Benefit Chicago, the largest impact investment initiative of its kind in the U.S. Benefit Chicago’s goal is to mobilize \$100 million for impact investments for nonprofits and social enterprises working throughout the Chicago region.

Private foundations can participate Benefit Chicago in a number of ways:

- **Become an investor:** For as little as \$1,000, a private foundation can invest in the Chicago-targeted note issued by Calvert Impact Capital through a brokerage account or financial advisor. The foundation managers can choose a term of 1-15 years for the note, with returns ranging from 1%-4% annually. For some foundations, the investment may be an ideal way to align part of the foundation’s investable assets with its mission.
- **Satisfy the 5% distribution requirement:** A private foundation may satisfy part of its annual distribution requirement by opening a donor advised fund with the Trust and recommending the Chicago-area note as the investment for the donor advised fund. As with the direct investment, the private foundation managers can recommend a term from 1-15 years, with a return of 1%-4% annually. At the end of the term, the principal and any accrued interest will be available in the donor advised fund for grantmaking, or it can be renewed as another investment in Benefit Chicago.

For private foundation managers who are looking to start slowly with impact investments, Benefit Chicago is an easy and exciting option that has the backing of The Chicago Community Trust, the John D. and Catherine T. MacArthur Foundation and Calvert Impact Capital.