



The Piedmont Community Foundation vs. Private Foundation

101 North Jay Street, P. O. Box 402, Middleburg, VA 20118 (540) 687-5223

Deciding on how to best implement your charitable gifts is an important decision. You should weigh all options and consult your financial advisors.

Terms Defined: PCF = Piedmont Community Foundation AGI = Adjusted Gross Income FMV = Fair Market Value

| Elements | Donor Advised Fund at PCF | Private Foundation |
|----------------------------------|--|---|
| Start-up Considerations | | |
| Cost | None | Incorporation costs of legal and accounting fees |
| Time Frame | Immediate, within 24 hours | Generally 1-2 months |
| Income Tax Deductibility | | |
| Cash | Up to 50% of AGI | Up to 30% of AGI |
| Publicly Traded Securities | FMV of up to 30% of AGI | FMV of up to 20% of AGI |
| Real Estate & Closely held stock | FMV of up to 30% of AGI | Limited to cost basis of FMV or up to 20% of AGI, whichever is lower |
| Payout Requirements | | |
| Foundation assets | None | Required annual payout of at least 5% of assets |
| Tax Considerations | | |
| Excise tax on investment income | None | Up to 2%- various taxes imposed if payout requirement is not met, or if engaging in certain prohibited transactions |
| Tax status | PCF is a 501(c)(3) public charity | 501(C)(3) private foundation; not as favorable as a public charity |
| Tax Return & Audits | Included in PCF administrative services | Performed by trustees, officers or hired staff. |
| Anonymity | | |
| Donor | Donors may remain anonymous if they choose to do so | Donors are named publicly on a private foundation's tax return |
| Administration | | |
| Administrative Services | All services covered by low annual fee, most often 1% of FMV of fund assets--basic grant services covered | Responsible for accounting, all record keeping, tax returns, grant programs and costs thereof. |
| Investment Management | Professional investment management and oversight – follows a written PCF investment policy | Responsibility of trustees, professional advisors and hired staff – (Must divest closely held stock within 5 years or be taxed) |
| Grant Support | PCF staff help to identify, assess, investigate, distribute and monitor grants | Trustees or hired staff operate grant program |
| Donor Involvement | | |
| Donor | Follows PCF fund agreement as set-up by the donor to meet their customized need -- Distributions to qualified 501 (c)(3) organizations | Donor appoints board, which controls investments and grant-making |
| Scope | Advisory | Legal accountability |
| Time Span | Flexible to exist short term or in perpetuity as per the donor | Limited to generational interest. |
| Summary | | |
| Basic Advantages | Flexibility, deductibility, more net proceeds to your recipient charities, freedom from paperwork, lower administration cost, anonymity option, buffers grant seekers, gain knowledge of nonprofits, permanence, impact philanthropy is possible in union with others of like charitable goals | Autonomous control |



Practical Operational and Economic Benefits of a PCF Fund Beyond Public Tax Exemption

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1. No cost to form your tax-exempt Fund within the PCF:

The IRS cost to form your own 501(c)(3) is rising. User fees charged by the IRS will increase for all applications for exemption (Forms 1023, 1024, and 1028) postmarked after January 3, 2010:

- \$400 for organizations whose gross receipts are \$10,000 or less annually over a 4-year period
- \$850 for organizations whose gross receipts exceed \$10,000 annually over a 4-year period
- \$3,000 for group exemption letters.

2. No waiting period to have tax exemption for your Fund within the PCF.

Once a fund agreement is executed in PCF, which can be done within a 24 hour window, donor funds are immediately tax exempt and ready to receive donations at the highest tax deductibility. The IRS is now taking several weeks to issue ruling letters on tax exempt status. Once PCF accepts your Fund you are legally tax exempt within PCF.

3. No cost of filing an annual Form 990 with the IRS.

You are covered under the PCF 990 at no additional expense or work to you. You save costs between \$500 to \$3,500 annually.

4. No cost for annual filings with the State of Virginia.

You are covered under the PCF. We file an annual report and you save registration fees of up to \$125 annually. In addition, PCF has an exemption for solicitation activities in Loudoun County and Fauquier County if you wish to fundraise for your fund.

5. No cost of annual financial audit or review.

Your fund is included in the professional accounting reviews of PCF. You save the expenditure of between \$5,000 to \$20,000 annually if you were to review or audit your own charitable entity.

6. No need to hire an accountant or bookkeeper.

All fund accounting is included within the PCF which saves you costs of approximately \$5,000 to \$35,000 annually depending on the complexity of your fund accounting.

7. No need to hire a grants program manager.

All grants are fully vetted by PCF to guarantee they are distributed to a public tax exempt agency which is required by the IRS to meet the charitable distribution rules. Grant reports are requested from grantees. Further grant services can be added to your basic fund package at PCF if you wish to utilize a competitive grant program for your fund. You save staff cost of approximately \$10,000 to \$40,000 annually if you hire a grants program manager.

8. No cost to maintain corporate records.

Your Fund is part of the PCF tax exempt entity. We maintain PCF corporate records, have a board of Directors, elect corporate officers and committees. Each Fund could choose to operate with advisory entities, have meetings, etc. but it is not a requirement within PCF. You save cost for preparing and recording meetings, maintenance of permanent records, policy and adherence requirements — all saving you costs of approximately \$10,000 to \$40,000 for a mid-level private foundation.

9. No worries about privacy, PCF actually provides greater privacy than a private foundation.

Ironically, unlike a private foundation, using PCF for your philanthropy actually provides **more privacy**. On the PCF Form 990 to the IRS (a public document) the grant listing does not list the fund from which the grant emanates; nor does it list fund donors. PCF must disclose gifts over \$5,000 but donors may be listed anonymously if the donor wishes to not be disclosed publicly. In contrast, private foundations must file a Form 990PF (a public record) which requires all donors and grants must be disclosed.

Summary

Thus, total cost of establishing, operating and reporting for an independent foundation could range from approximately \$15,000 to well over \$100,000 annually depending on asset size and operational complexity.

vs.

PCF's average annual fee which is typically 1% of annual assets.

\$100,000 fund --- \$1,000 in annual fees

\$1,000,000 fund --- \$10,000 in annual fees

Greater Simplicity, More Privacy, Less Expensive,
More Net Proceeds Directed to Your Recipient Charities