Hansbrough Financial Services

Unique Estate Planning

5111 Sauk Trail
Richton Park, IL 60471

RONALD A. HANSBROUGH
Master Certified Estate Planner

Direct Line: 708-754-9530
Toll Free: 800-598-9530
Fax: 708-754-9546
Email: rahansb@aol.com

PERSONAL FINANCIAL REVIEW

20/20

Volume 25, Issue 2

Private Foundations– AN ALTERNATIVE TO CHARITABLE GIVING

For many individuals with accumulated wealth, occasional gifts to a favorite charity may satisfy their charitable inclinations. The added incentive of an often-substantial tax deduction, coupled with various estate planning benefits, can be the driving force behind such charitable gifts. However, for some individuals, philanthropy is a far more serious endeavor, often involving a *succession* of substantial gifts of at least $5 to $10 million, which may necessitate an amount of control and general oversight. In these situations, a **private foundation** can be an ideal venue for managing a large, ongoing charitable giving program.

The Basics

In its simplest form, a private foundation is a charitable, grant-making organization that is privately funded and controlled. When properly arranged and operated, a private foundation can be an entity that is exempt from income taxes and which thereby permits tax deductions for those who donate to the foundation.

Contributions to a private foundation are deductible for gift and estate tax purposes. However, the income tax deduction for gifts to a private foundation is a bit more complex. Generally, the deduction is based on the fair market value of the gift (at the time it was given), and it is limited by the donor's **adjusted gross income (AGI)**. The charitable deduction is also limited (to 20%, 30%, or 50% of AGI) by the type of charitable organization that is ultimately receiving the gift from the private foundation *and* the type of gift being made. Gifts that are not cash or publicly traded securities, and that are valued at more than $5,000, need to adhere to specific rules to ensure that they are tax deductible.

In addition to offering the advantages of a tax deduction (which is usually not exclusive to private foundations), private foundations may also offer an array of other benefits. Because a private

CONTINUED ON PAGE TWO

continued from page one

PRIVATE FOUNDATIONS–AN ALTERNATIVE TO CHARITABLE GIVING

foundation is typically established to manage a long-term charitable gifting program, it may highlight the philanthropic presence and identity of the donor within the community or associate the donor with a particular charitable cause. It can also serve to create a family charitable legacy while at the same time protecting individual family members from the pressures of other charitable appeals. Finally, a private foundation can serve as an appropriate mechanism for controlling distributions to charities, and it can determine which charities it will benefit.

The Technicalities

When a private foundation is established, two important questions need to be asked. First, what type of private foundation should the donor establish? And second, how should the private foundation be structured? There are generally three types of private foundations: **nonoperating**, **operating**, and **company-sponsored**. Each type of foundation has specific characteristics that make it appropriate for a particular situation. Also, each type of foundation must adhere to a set of strict requirements and guidelines.

The most common type of foundation is the *nonoperating*. Essentially, a donor or group of donors make contributions to the foundation, which in turn makes grants to a charity. In this case, the donor does not participate directly in any charitable work. There are several variations on this type of foundation.

An *operating* foundation may have direct involvement in charitable causes (e.g., an inner-city youth center) while retaining the tax benefits of a "private" foundation (in some respects, operating as a "public" charity does). To qualify as an operating foundation, several requirements need to be met.

A *company-sponsored* foundation is useful when the majority of contributions are from a for-profit corporate donor. Typically, the operation of this type of foundation is similar to that of a nonoperating foundation. It is usually managed by corporate officers, and it has the added benefit of allowing some contributions to accumulate over time. This can help the foundation make continual grants when corporate profits are low.

After careful thought is given to the type of foundation to be established, a decision about structure must be made. A foundation can be structured three ways; it can be a **nonprofit corporation**, a **trust**, or an **unincorporated association**.

A number of factors need to be considered to determine which structure is best. Generally, if the donor intends to keep the foundation in existence permanently, a nonprofit corporation or a trust may be the better choice. But it is important to consider a number of factors, including state and local laws governing private foundations, the type of foundation, the type of donor, the need or desire to make future changes or delegate responsibilities, and personal liability issues.

The Cost

Creating and maintaining a private foundation is much more involved than using more traditional charitable-giving vehicles

(e.g., a charitable remainder trust). Therefore, legal and accounting professionals who have experience with private foundations must play a significant role in such an endeavor. And it is important to know that expenses are likely to be substantial because of the complexity of foundations, the need for highly specialized legal and tax expertise, and the costs associated with design, set-up, management, and grant administration. Typically, a private foundation is only viable for individuals who intend to make periodic gifts in excess of $5 million.

Certainly, the private foundation allows today's philanthropist the opportunity to manage substantial charitable gifts and to actually become involved in charitable work if he or she so chooses. It also affords the donor the opportunity to be recognized for charitable giving, while solidifying his or her philanthropic legacy. As with all advanced estate and tax planning, consult with your team of qualified legal, estate, and tax professionals to help ensure that you meet the goals and objectives of all involved parties. **20/20**

Strategies to Sell YOUR HOME

When you sell a home on your own, there is more required than just putting up a curbside sign and waiting for buyers to come to your door with money in hand. However, doing a little "homework" and gathering all the facts can help you understand what is involved when you decide to sell your home.

Sellers, who are emotionally attached to their homes, often price them too high. To determine a more realistic price, compare your home with similar homes in your neighborhood or town. If houses are not selling quickly or if the price of your home is higher than those around you, you may have to set the price lower than you originally intended. You may choose to hire an **appraiser** to help you determine an appropriate selling price.

All too often, owners skimp on advertising. In addition to the "For Sale" sign in your front yard, post others where legally allowed. Compile a brochure or fact sheet listing the asking price, lot size, individual rooms and dimensions, heating and cooling systems (with monthly utility bills for the last year), appliances or other fixtures included, present financing, taxes, and any unusual or particularly attractive features. Don't forget to include a telephone number and show your property by appointment only. The Internet can also be a useful tool when selling your home. People who may be relocating to your area can view photos and a fact sheet, which could spark their interest.

It may be wise to screen potential buyers. If they seem interested, inquire about their potential down payment. If you are getting close to a deal, consider asking the buyer to supply a financial statement from a bank or mortgage lender. A serious buyer will be happy to provide the requested information. You may even ask buyers if they have obtained a "pre-approval" or "prequalification" letter from a bank or mortgage company, to ensure that the funds they are offering for your house would be available for them to borrow.

If you need assistance, a "hybrid" real estate company may prove a lower-priced alternative to traditional full commission brokers. These companies generally charge a flat fee—based on the asking price of the house—to screen prospective buyers, arrange appointments, suggest a price, and negotiate with buyers. However, showing the house would be the owner's job.

If you decide to sell your home on your own, remember the following tips:

1. Price It Fairly. Compare your house to others in your neighborhood that have recently been sold, and factor in any improvements or unusual assets.

2. Advertise. Use more than just a "For Sale" sign on your lawn. Circulate brochures, run ads in the local newspapers, and post notices on bulletin boards and real estate websites.

3. Screen Buyers. Before accepting an offer, ask the buyer to provide a financial statement or obtain mortgage pre-approval or pre-qualification.

When should you decide to discontinue selling the home on your own? Assuming a house is properly priced and in a reasonably active market, a homeowner attempting to sell without professional assistance should allow for a predetermined time period without a written offer. If you find you want or need to move more quickly, consider using a hybrid real estate company or a professional broker.

Selling a home on your own can be a great deal of work, but you may save thousands of dollars that would otherwise be "lost" to real estate commissions. On the other hand, while the prospect of improving your financial position may be tantalizing, the task may be too time-consuming or otherwise beyond your expertise. Professional real estate assistance, whether from a service or a broker/agent, may "save" you more than you realize as you prepare to sell your home. The decision of whether you should sell your house by yourself or with professional assistance is complicated. However, doing a little research and arming yourself with some information can help you decide the best strategy for you and your situation. 20/20

Required Minimum Distributions FOR TRADITIONAL IRAs

Saving as much as you can for retirement, as soon as you can, and as often as you can, is crucial to your financial well-being for when you finally exit the workforce. Suppose you have spent a lifetime contributing to a traditional **Individual Retirement Account (IRA)**, and hope to leave your nest egg untouched for your heirs. The Internal Revenue Service (IRS) has certain requirements for you to follow concerning your IRA distributions once you reach a certain age.

At age 70½, or by April 1 of the year following the year you reach this age, the IRS mandates that you either empty the account in one lump-sum payment, or take required minimum distributions (RMDs). If you choose to take RMDs, ongoing distributions must be taken at the end of each following year. If your birthday is December 3, 2018 and you turn 70½ on June 3, 2019 you can wait until April 1 of the following year—2020—to take your first distribution. But, doing so can have tax consequences. In December 2020, you will be required to take your next distribution, which will raise your taxable income for the year, potentially boosting you into a higher tax bracket or even causing your Social Security benefits to be taxable.

The minimum withdrawal amount is calculated by dividing the amount of your account balance by the appropriate life expectancy factor, which depends on your age. The IRS Uniform Lifetime Table below illustrates the amounts for the majority of taxpayers, including individuals who are single, married with spouses 10 years younger or less, and married with spouses who are not the sole beneficiaries of the account and are more than 10 years older than the account owner:

Uniform Lifetime Table

Age	70	75	80	85	90	95	100	105
Years	27.4	22.9	18.7	14.8	11.4	8.6	6.3	4.5

Based on the table above, let's suppose that if you are age 70 and your account is worth $500,000, then your RMD amount would be $18,248 ($500,000 divided by 27.4). Married individuals whose spouses are more than 10 years younger and are named as the sole beneficiaries of their accounts can use a joint life expectancy table to calculate their RMDs. Remember that a required minimum distribution is just that—a minimum—you can always take out more than the required minimum. However, if you fail to withdraw at least the minimum amount, the IRS may impose a 50% penalty each year on the dollar amount that you neglected to withdraw. Based on the example above, if you failed to take your RMD, the IRS could claim the amount of $9,124.

Distributions from your traditional IRA can be taken without penalty after you reach age 59½, but before you reach this age, a 10% tax penalty may be incurred on early withdrawals. There are some exceptions. Withdrawals taken for the purchase of a first home or for medical or higher education expenses may not be subject to the penalty. In addition, distributions taken in a series of substantially equal payments over your life or life expectancy may not incur a penalty.

You will work a lifetime to accrue enough savings to attain a desirable lifestyle in retirement. Be sure to consult your qualified financial and tax professionals before RMDs are due in order to determine appropriate choices that are consistent with your overall objectives. 20/20

The information contained in this newsletter is for general use and it is not intended to cover all aspects of a particular matter. While we believe all information to be reliable and accurate, it is important to remember individual situations may be entirely different. Therefore, information should be relied upon only when coordinated with professional tax and financial advice. The publisher is not engaged in rendering legal, accounting, or financial advice. Neither the information presented nor any opinion expressed constitutes a representation by us or a solicitation of the purchase or sale of any securities. This newsletter is written and published by Liberty Publishing, Inc., Beverly, MA, COPYRIGHT 2019.