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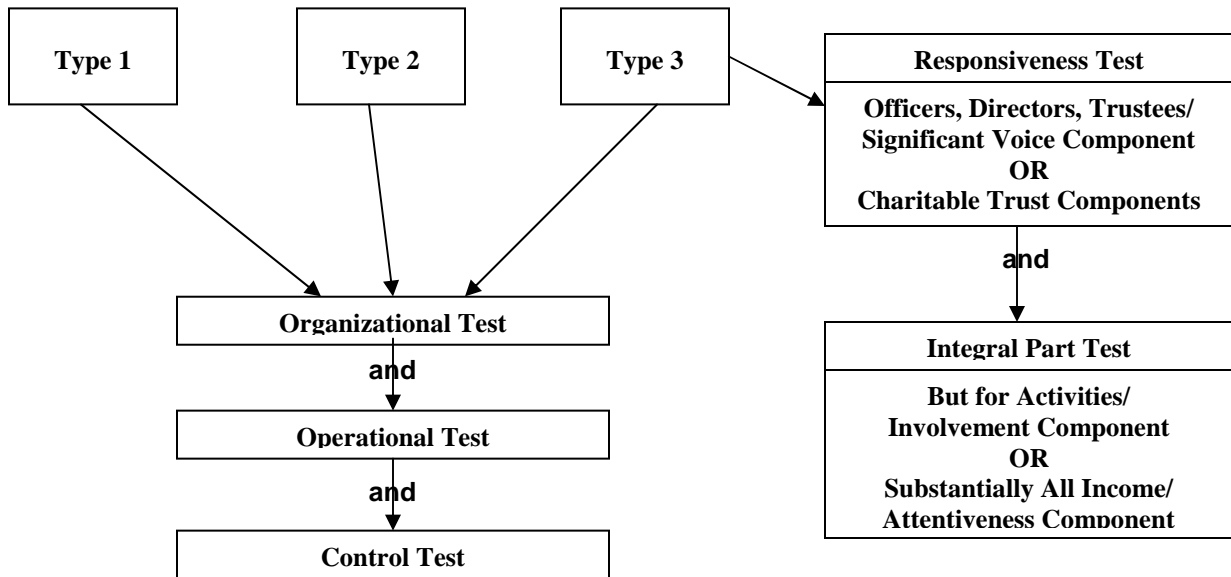
Tax-Advantaged Insurance Solutions & Financial Strategies
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Community Supporting Organizations

Community Supporting Organizations (CSOs) are a powerful tool for family financial planning. They provide opportunities for gifting, asset protection, tax reduction, and for the perpetuation of family involvement in support of religious, educational, and social welfare organizations.

CSOs present a more flexible and tax-advantageous opportunity than do private foundations, charitable remainder trusts, and dynasty trusts. CSO's may be organized to support many types of public charities [501(c)(3)], or to perform the charitable functions of 501(c)(4), (5) or (6) organizations meeting the 509(a)(2) rules. The following charts present an overview of the requirements for forming a CSO and present a comparison between CSOs and Private Foundations. Typically, the CSO will receive a letter ruling from IRS as part of the formation process. The conclusions are obvious.

Requirements for Community Supporting Organizations



Comparison of Private Foundations vs. Community Supporting Organizations

Discussion of Issues	Private Foundation	Supporting Organization
TAX CODE		
All of these organizations receive their tax-exempt status by virtue of IRC 501(c)(3) and are further classified as either public or private foundations by IRC 509. The foundation's tax classification affects the deductibility of the donor's contributions under IRC 170(b) and the application of the excise taxes under IRC 4940-4945, which apply to private foundations.	This foundation is classified by IRC 509(a) as a private foundation because it does not meet any of the exceptions that would give it public status. Deductibility of the donor's gifts is therefore limited to 30 percent of the donor's AGI for cash gifts and 20 percent for gifts of other than cash (with a five-year carry forward). Gift value of qualified publicly traded, appreciated stock may be valued at full fair market value [TTREA '98, Sec. 1004(a)]. All excise taxes, including an investment tax of 2 percent, apply.	This organization is classified as a public charity by virtue of IRC 509(a)(3). Deductibility of the donor's gifts s therefore limited to 50 percent of the donor's AGI for cash gifts and 30 percent for gifts of other than cash (with a five-year carry forward). Gift value of long-term capital gain assets is allowed at fair market value.
COST OF SET-UP		
	Cost usually varies between \$3,000-\$15,000 depending on foundation's size and the complexity of creation and funding. Always paid by donor. Cost can be split by multiple family units coming together to create a multifamily foundation.	Cost usually varies between \$5,000-\$15,000 depending on organization size and complexity of creation and funding. Often paid by supported charity.
COST OF ADMINISTRATION		
A foundation's costs of administration includes such items as director's fees and administrator' salaries (where the foundation is large enough), accounting fees, custody fees, investment management fees, and any fees paid to professional foundation consultants. Costs as a percent of the foundation's assets or grants become lower with more assets.	Donor determines all costs by choosing services and providers. These usually range between 1/2 and 2 percent of the foundation's size.	Donor determines all costs by choosing services and providers. These usually range between 1/2 and 2 percent of the asset base, but may be larger for smaller organizations.
DURATION		
Usually family foundations are set up to be perpetual in existence. Those who want to cut short the foundation's life usually set up charitable lead trusts.	Terminates either by instruction of trust document or by vote of board of directors. At termination, any assets are distributed to charities selected by board.	Terminates either by instruction of trust document or by vote of board of directors. At termination, any assets are distributed to charities selected by board.

Discussion of Issues	Private Foundation	Supporting Organization
<p style="text-align: center;">FAMILY CONTROL</p> <p>Many parents want to be in control of the foundation during their lifetime and then pass control of the foundation to their children at death. In this way, they believe that they are assured that the family will retain maximum benefit from the foundation and that the family influence will remain strong.</p> <p>However, often the opposite is true. Without the influence of representatives of public charity on the board that are experienced in foundation governance, family members often make mistakes that either jeopardize the foundations charitable mission or reputation, or result in expensive penalties or loss of tax status. These mistakes usually result from either the children's inexperience in governance or from their seeking personal reward from the foundation.</p>	<p>Family controls more than 50 percent of the votes on the board. With this control, founders are assured that they will control all foundation decisions, including grant size and distribution, liquidation of contributed assets, and investments of the endowment.</p>	<p>Family sits on board with representatives of the charities or classes of charity that are named in the organizational document. These representatives have more than 50 percent of the board voting control.</p> <p>As with the donor fund, the family relies on the board to allow them to control policies.</p> <p>Unlike the donor fund, however, founders of supporting organizations have the ability to create a document which determines policies that govern the governors (board); greater influence on board decisions; the ability to interact in a boardroom setting and become better acquainted with influential representatives of public charity who can teach them about effective governance and open doors for them in the community; and the ability to have "effective control" of the board by dispersing representation by public charity among several non-related charities.</p>
<p style="text-align: center;">INVESTMENT FREEDOMS</p> <p>Since the grant making foundation derives much of its power from its investments (size of grants, growth of assets, investment in the community), the freedom to invest the funds as the founders choose can be the most important power they retain. This freedom affects the foundation's ability to buy assets from or sell assets to family members, hold large amounts of company stock, enter into jeopardy investments, invest in community projects, and select the investment managers that are performing well.</p>	<p>Total flexibility in determining when to sell contributed assets, in managing them, and in selecting investments, but it cannot own more than 20 percent of any company (excess business holding) or enter into any transactions with disqualified persons (self-dealing).</p>	<p>Investment options and policies regarding acceptance and management of non-marketable securities are controlled by the board, but family has greater influence on board. Family can own more than 20 percent of a company and can enter into transactions with family members</p>
<p style="text-align: center;">GRANTMAKING FREEDOMS</p> <p>Freedom to make grants is a double-edged sword. Founders who do not restrict this freedom face the great risk that the foundation which bears their name and which gives away their money will, in the future, support causes to which the founders were adamantly opposed.</p> <p>Also, the freedom to not make grants and accumulate for a period of time can be important if the donor wants to build the endowment either to increase grant size or to build back after losses.</p>	<p>Restrictions on grants are only effective with the trust form of private foundation. The foundation is required to make distributions of at least 5 percent of the asset value each year.</p>	<p>Restrictions are most effective with trust form of supporting organization, but are less necessary because grants are restricted to classes of charities named in the organizational documents. No minimum distribution is required.</p>

Discussion of Issues	Private Foundation	Supporting Organization
<p>POTENTIAL LIABILITES</p> <p>Liabilities may come in many forms, but generally they are with regard to either personal liability as a board member due to violation of foundation rules or with regard to the foundation itself, where the foundation assets come into jeopardy. Board exposure to liability is partly influenced by whether the organization has a public tax status or a private tax status; whether it is a corporation or a trust. If it is a corporation, foundation directors are usually subject to a lower standard of care than are trustees of a trust, and many states have statutes which offer indemnification to directors of non-profit corporations – where indemnification is less clear for trustees.</p>	<p>Board members are subject to pecuniary penalties for violation of private foundation rules, which are numerous. Foundation assets are also subject to penalty for violation of rules. No liability due to assets of others since only assets of donor are usually involved.</p>	<p>Board members are NOT subject to numerous private foundation rules, NOR to its personal penalties. They are, however, still subject to fiduciary obligations. But family is less likely to incur liability because they have to sit on the board with experienced non-profit directors to advise them.</p>
<p>TRUST OR CORPORATION</p> <p>Independent Foundations can be set up either as non-profit corporations or as charitable trusts.</p> <p>Though trusts are more difficult to change than non-profit corporations (trust documents must be amended in court, corporations can be amended by a board vote) and are therefore less adaptable to changing circumstances, a trust is easier to create since no state approval is necessary, and is easier to administer since less state reporting is often required.</p> <p>Corporations offer the directors greater liability protection.</p>	<p>Founders have the predicament of often wanting less flexibility in grant making (to protect against successor boards whose values conflict with the founder's values) but also wanting more protection for board members due to onerous private foundation rules and personal penalties</p>	<p>Founders do not have as much concern about either liability or future boards deviating significantly from the founder's charitable mission so the form of organization is less critical.</p>
<p>PRESTIGE AND INFLUENCE</p>	<p>Some may consider it to carry greater personal prestige to be a board member of an independent foundation than a charity.</p>	<p>Some may consider it to carry greater personal prestige to be a trustee of a charitable trust enabled to support certain classes of public charities or to act in support of the public charity.</p>

Discussion of Issues	Private Foundation	Supporting Organization
TAX STATUS		
<p>The restrictions placed on the tax-deductibility of contributions made to a foundation depend on its tax status: public or private. This status also affects whether it is subject to investment tax</p>	<p>Deductibility of gifts is limited to 30 percent of donor's AGI for cash gifts and generally to 20 percent for gifts of other than cash (with a five year carry forward). Gift value of long-term capital gain assets is limited to the donor's adjusted basis.</p>	<p>Deductibility of gifts is limited to 50 percent of donor's AGI for cash gifts and 30 percent for gifts of other than cash (with a five year carry forward). Gift value of long-term capital gain assets is allowed at fair market value without recovery of depreciation</p>
	2% Excise tax	No excise tax
	5% corpus distribution	No corpus distribution
	All net income distributed	85% of net income distributed
	Limits on appreciated asset deduction	Complete deduction of appreciated assets
	Complete control	Effective control only
	Subject to IRC 4940-4945	NOT subject to IRC 4940-4945
	No charitable distribution limits	Distributions only to identified charities
	Self-dealing rules	<p>No self-dealing rules. Can:</p> <ul style="list-style-type: none"> Provide income to family members Make loans to family members Pay expenses related to organization Do business with family members Own family businesses (Corp & Ptr) Make investments Buy insurance on family members Make loans for estate taxes Interest paid to CSO is fully deductible
TYPE ORGANIZATIONS SUPPORTED		
		<p>May be organized to support or perform qualified activities in support of organizations qualified under:</p> <ul style="list-style-type: none"> 501(c)(3) – religious, educational, scientific, medical, etc. 501(c)(4) – civic leagues and social welfare organizations 501(c)(5) – labor, agricultural and horticultural organizations 501(c)(6) – Chambers, boards of trade, common interest groups