

What You Need to Know About a Family Foundation

Family foundations are a wonderful way to combine a love for philanthropy while carrying on your family's name and legacy. With a family foundation, you are able to contribute to the causes that are meaningful to you for generations to come.

Family foundations are an important part of charitable giving and can range from small monetary organizations to multi-billion-dollar philanthropic endeavors.

No matter the size, your family foundation needs to be set up properly to be successful and long-lasting. This means understanding the purpose as well as what steps to take.

What Is the Purpose of a Family Foundation?

A family foundation is established using family assets for mission-driven charitable giving. Family foundations are a way to preserve family wealth over generations; they can be funded through real estate assets, jewelry, art, and stock, among other sources.

Steps to Setting Up a Family Foundation

When setting up a family foundation, the family needs to come together and go through a discovery process to decide what causes they are most passionate about serving, the purpose of this foundation, and the legacy they hope to leave. This initial phase of bringing the family together could mean multiple meetings to discern what is most important and their ultimate mission.

Set Up an Entity

The foundation needs to set itself up as a trust or corporation before seeking tax-exempt status from the IRS. Legal and tax advisors can help you understand which option is best for you. Once that is set, tax-exempt status can be sought.

Create a Board

A family foundation needs a board, which can consist of family members or other trusted individuals, to help fulfill the foundation's mission. Some family foundations also hire an administrative staff, although that is not necessary.

Get Funding

Foundations can begin with as little as \$250,000. During the first year, foundations do not have to make a distribution, but after that, IRS rules need to be followed.

Consider Making Grants

Grants are an important part of a family foundation because it requires looking at each cause to decide if it's something that supports the mission. When done correctly, this process can take some time because there are many aspects of the cause that should be reviewed. Family foundations do not want to give money to just any cause, especially when they're just starting out and may not have much funding.

Factors to Consider When Setting Up a Family Foundation

Setting up a foundation requires keeping track of several aspects. Detailed records must be organized, and someone needs to keep up to date on all IRS requirements and filings. It's important to know that the IRS

looks closely at excessive salaries, interest-free loans, and unsecured loans to family members as possible red flags.

There are also other things to keep in mind:

- The IRS requires that foundations disperse 5% of their assets annually.
- All private foundations must file a 990-PF IRS form and a 1023 where it applies.
- Family members and others can be paid board members or administrators of the foundation.

When considering your family members, you also want to think about what roles to which they may be assigned.

You don't want to cause friction in the family, so it is important to be sure everyone understands on their roles.

The structure needs to be laid out ahead of time so there is no confusion.

Family foundations can be a great way to help a variety of causes. When set up properly and maintained well, they can continue to do helpful work for generations.

Stifel does not provide legal or tax advice. You should consult with your legal and tax advisors regarding your particular situation.