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Private Charitable Foundation

Many people who have been charitably inclined during their lifetimes like the idea of establishing a charitable foundation that will continue after they die. The foundation can be created while you are living, or it can be established after you die. To qualify, a small percentage of the trust assets must be distributed to charity each year. But you can name whomever you wish to run the foundation, including your children, and the foundation can pay them a reasonable salary. You can be very specific about which charities you want to support, or you can leave that up to the trustees of the foundation to decide (within IRS guidelines, of course).

The tax benefits of setting up your own foundation can be substantial. You can save estate, capital gains and ordinary income taxes:

- The assets you give to the foundation will be removed from your taxable estate. So, for example, if you give your entire estate to the foundation (or the entire amount over the estate tax exemption), your estate will pay no estate taxes!
- There will be no capital gains tax when the assets are sold by the foundation, so it's great for appreciated assets.
- And, if you donate publicly traded securities to a private foundation, you can get a charitable income tax deduction for their full fair market value - up to 30% of your adjusted gross income. (The deduction is less than the 50% limit for standard charitable contributions because this is a private charitable foundation.)

So, instead of giving all that tax money to Uncle Sam and letting Congress decide how to spend it, you can set up your own charitable foundation, donate your assets to it and keep some control over how the money is spent! (The IRS does have a few restrictions on how the money is used.) Life insurance can also be used to provide funds to the foundation.