

# What Advisors to Entrepreneurs Should Know About Community Foundations

by Robert A. Goldman, JD CPA

Community foundations are the vehicles of choice for a number of wealthy individuals. Why is that? What motivates these contemporary entrepreneurs to prefer community foundations, and what services do they use?

This article explores why entrepreneurs choose community foundations and how they make use of them.

An entrepreneur client usually focuses on the philanthropic option when told that his or her estate may pass to family, government (taxes) or philanthropy – pick any two. Philanthropy is the preferred choice over taxes because it gives the entrepreneur control over ultimate disposition of funds.

In working with many clients whose net worth ranges from \$10 million to \$700 million, our firm finds that a spark ignites when we discuss control, outcomes, and taxes. Once entrepreneur clients see the benefits of philanthropy, they frequently launch a highly energetic philanthropic enterprise that may last a lifetime.

The choice of philanthropic mechanism is critically important to the client. The professional advisor should become familiar with the uses, flexibility, and tax and administrative cost considerations of the major vehicles. In the most general terms, the options include establishing:

- a direct relationship with a nonprofit organization by contributing either periodic gifts for immediate use or by building up an endowment.
- a private foundation.
- a fund within a community foundation.

The following examples illustrate how and why entrepreneurs decide to work with community foundations.

## Using A Donor Advised Fund

Like Jeremy Jaech, founder of Visio, a Seattle-based high-technology company, many entrepreneurs have most of their wealth concentrated in stock in their own companies. Jaech and his wife, Linda, have a number of charitable interests and also want expert advice on their giving. They have established a donor advised fund at the Seattle Foundation to meet their needs.

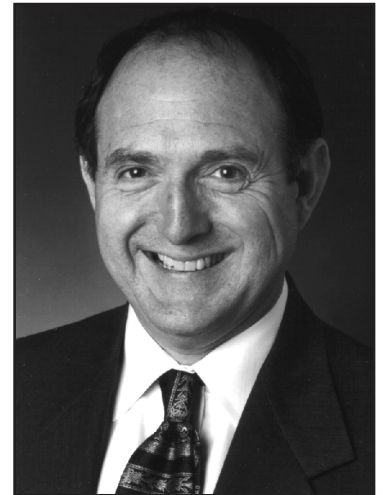
The stock Jaech owns is a restricted security and there are only a few times a year he can give or sell shares. Jaech can contribute funds to the donor advised fund at his discretion. He can then work with the community foundation staff and make grant recommendation to fund various charities throughout the year.

“We didn’t create a private foundation,” Jaech says, “because we wanted expert advice on our general giving. The Seattle Foundation makes good choices.”

## Using A Supporting Organization

Emma B. Howe, a Minnesota resident and formerly the largest individual shareholder of Deluxe Check Printers, died in obscurity in a nursing home. She directed that upon her death, her company stock, worth \$22 million, be used to create a foundation “to aid children, the poor and the handicapped and to support medical research, health services, education and civic improvements.”

Rather than operate as a separate foundation, with its taxes and costs, the trustees of the Emma B. Howe Memorial Foundation made it a supporting organization to the



Minneapolis Foundation, a community foundation. A supporting organization has its own board, its own mission statement and other attributes of a private foundation but provides greater tax benefits and is not subject to the private foundation rules and regulations.

The Howe Foundation is able to take advantage of the Minneapolis Foundation’s expertise on current community needs, its professionalism in investigating prospective grantees and its economies-of-scale in administering grants.

Professional advisors properly see their role as offering clients choices for charitable mechanisms, educating them about those choices and working with the entities their clients select to accomplish the client’s goals. Those goals may include tax, business, family and personal as well as charitable goals.

The entrepreneur-client, now turned philanthropist, can take it from there, deciding on which kind of charitable activity to support, and with counsel from professional advisors, at what level. Entrepreneurs who use high-quality services and tap the expertise of community foundations discover a whole new experience – one based on the sense of accomplishment, self-fulfillment, and just plain enjoyment that accompanies giving.

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# The Ethics of Referring Clients to Community Foundations

by Lorin Castleman, Esq

Is it ethically improper for advisors to refer clients to community foundations? By doing so are they advocating a particular charitable cause? Can community foundation referrals possibly endanger the advisor-client relationship? The answer to all of these questions is no. The reason lies in the fundamental distinction between community foundations and other public charities.

Community foundations, unlike most public charities, are not 'end-users' of charitable dollars. People can give both *through* as well as *to* community foundations and currently most prefer to do the former. In 1998, The East Bay Community Foundation distributed more than \$12 million to charitable organizations. The vast majority of those

funds, roughly \$10 million, came from either donor advised or donor designated funds. In other words, it was money which donors passed through the Foundation to the nonprofits of their choice.

Community foundations act as neutral intermediaries between the donor community and the nonprofit community. They are service providers who work with clients to help them satisfy both charitable and tax planning objectives. In the process of doing so they do not place any burdens or restrictions on the type of gifts their donors can make. They have specialized knowledge of the nonprofit community and can share this expertise with donors. It is perfectly acceptable for someone who has a pre-existing relationship with certain nonprofit organizations to continue to

give to them through a community foundation.

By making a referral to a community foundation, an advisor is not advocating a particular charitable cause. The advisor is pointing out an organization which, because of the many services (grantmaking assistance, fund investment and management, administrative support) and giving options (donor advised, field of interest, supporting organizations) it provides, can help many of our clients streamline and simplify their giving.

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**Scott Shafer**, Host of KQED's The California Report

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