

## COMMUNITY FOUNDATION FOR SOUTHEASTERN MICHIGAN

### INFORMATION ABOUT SUPPORTING ORGANIZATIONS

#### Introduction

A supporting organization is a particularly favorable alternative available to an individual, family, or organization considering the establishment of a private foundation, or the termination of an existing private foundation. A supporting organization maintains its own identity – usually as a separate charitable corporation – yet enjoys significant tax advantages because of its affiliation with the Community Foundation. These advantages are available to the supporting organization because it meets the requirements of Section 509(a)(3) of the Internal Revenue Code.

#### Advantages of a supporting organization

There are many advantages to becoming a supporting organization of the Community Foundation for Southeastern Michigan:

*Active Role for Donor.* You and your family may maintain active participation in the management of the supporting organization.

*Public Charity Tax Status.* Your supporting organization enjoys the favorable tax benefits of public charity status, which are unavailable to private foundations:

- In general, cash contributions to the organization by individuals are fully deductible up to 50% of adjusted gross income and gifts of long-term, appreciated assets are deductible up to 30% of adjusted gross income (versus 30% and 20% for similar gifts to a private foundation).
- Gifts of long-term appreciated real estate and private business interests are deducted at *fair market value* (versus *cost basis* if the gift were made to a private foundation).
- The supporting organization need not comply with the private foundation minimum qualifying distribution rules in making annual grants and distributions.
- Supporting organizations do not pay the two (or one if the organization meets certain distribution requirements) percent annual excise tax on a private foundation's net investment income.
- The supporting organization is not subject to "excess business holding rules" requiring it to dispose of holdings in business enterprises; the supporting organization and its managers are not subject to "self-dealing rules" which impose stiff penalty taxes on transactions between the organization and its substantial contributors; the supporting organization avoids excise taxes on "jeopardy investments"; and the supporting organization avoids liability for making "taxable expenditures."

*Professional Staff Support and Management.* The Community Foundation for Southeastern Michigan will provide ongoing professional advice and staffing to the organization as well as support services such as accounting and filing of all required reports. Our staff can also work with your professional advisors during the creation and ongoing administration of the organization.

*Investment Flexibility.* The supporting organization may retain discretion and flexibility in investment decisions within the limits of the law and the general guidelines of the Community Foundation for Southeastern Michigan.

*Broad Range of Charitable Activities.* A supporting organization of the Community Foundation for Southeastern Michigan may make qualified grants and conduct other charitable programs to benefit any charitable activity which furthers the charitable purposes of the Community Foundation for Southeastern Michigan including grants to public charities throughout our region and the United States.

#### How to become a supporting organization

The Community Foundation for Southeastern Michigan is interested in working with you and your professional advisors to assist in developing your supporting organization. To become a supporting organization, the organization must comply with Internal Revenue Service requirements and the Community Foundation for Southeastern Michigan's policies as follows:

- Draft or amend governing instruments to provide that the purpose of the organization is to act for the benefit of, perform the functions of, or carry out the purposes of the Community Foundation for Southeastern Michigan. Those purposes are generally to receive and accept property to be administered, to support and promote educational, scientific, literary, cultural and charitable purposes, primarily for the residents of southeast Michigan.
- Permit the Board of the Community Foundation for Southeastern Michigan to elect or appoint a majority of the directors or trustees of the supporting organization.
- The remaining directors or trustees may be appointed by you or the directors of your current private foundation.
- Have a net worth of \$5 million or more at the time of affiliation with the Community Foundation for Southeastern Michigan.
- Select a financial institution (or institutions) approved by the Community Foundation for Southeastern Michigan to manage the investment of assets of the organization.
- Use the Community Foundation for Southeastern Michigan to provide management and professional services to the organization on a continuing basis.

#### Guidance in how to convert to or from a supporting organization

The Community Foundation for Southeastern Michigan is pleased to assist you in the process of developing supporting organizations. Although each situation requires special consideration, additional materials are available that outline the general procedural steps for putting in place an affiliated foundation. We are also always happy to provide assistance to your professional advisors.