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## Berman Capital Advisors LLC

Justin F. Berman, MBA, Founder and Principal

# “What are the advantages and disadvantages of **setting up my own family foundation?**”

By Justin F. Berman

**A great privilege of significant wealth is the ability to help others.**

Many families are not satisfied simply with responding to gift requests; they prefer to define philanthropic objectives and actively manage their philanthropic activities. Many decide to create a private family foundation, but, as with everything in life, this approach has its pros and cons.


Starting a foundation is like starting any corporation, with the added burden of submitting IRS Form 1023 to apply for tax-exempt status. Unless a family member has expertise in this area, legal fees will result. The foundation also files Form 990-PF annually to report its activities and financial results to the IRS. This can be done internally or by a tax accountant.

Tax deductions in 2012 for a gift to a private foundation are limited to 30 percent of AGI for cash and 20 percent for appreciated stock, compared to 50 percent and 30 percent, respectively, in these categories for gifts directly to public charities. Carry-forwards of the excess are available for five years. Foundations must make annual grants of at least 5 percent of their asset base or pay an excise tax of 30 percent on the shortfall. Foundations pay a 2 percent

tax on investment income. This may be reduced to 1 percent if the foundation has made grants in excess of 5 percent for each of the past five years (or every year since formation if the foundation is less than five years old).

Activities not consistent with the charitable focus of the foundation are prohibited, including unrelated business income from investments. The IRS also scrutinizes transactions such as payroll to family members or benefits received from grantees, which may be viewed as prohibited self-dealing. Penalties range from the imposition of excise taxes to the loss of the foundation's tax-exempt status.

Many families determine that all of this is a small price to pay for the long-term benefits of a private foundation. A private foundation allows a family to commit significant resources to charity now, add to it later and receive current-year tax deductions for each contribution, without having to “give it all away” immediately. The family can use the foundation to manage its charitable giving for generations to come, making it a solid tool for passing down family values to future generations. Most foundations invest their assets in an attempt to cover the required

annual distributions, taxes and operating expenses. As such, the foundation may also serve as a training ground to teach wealth management to younger family members. Finally, the family retains control of the foundation assets so they will always be used to further the family's own philanthropic objectives. 

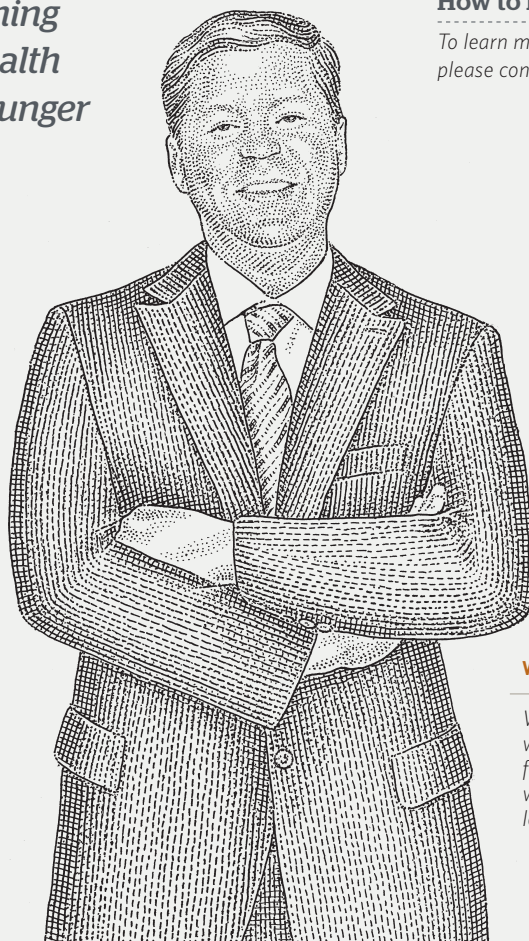
### ANOTHER OPTION: DONOR ADVISED FUNDS

Families that do not wish to take on the burdens associated with a private foundation should consider a donor advised fund at their local community foundation or similar public charity. The initial—and subsequent—donations are deductible at public charity rates (currently 50 percent of AGI for cash, 30 percent for appreciated stock) and generally there are no minimum annual distributions. The money legally belongs to the charity once the donation has been made, and must be acknowledged as such in order for the contribution to be deductible, but the donors may direct gifts out of their fund. Before going this route, donors should be comfortable that the community foundation will support organizations that the donor ultimately wants to support.



*“[A family] foundation may serve as a training ground to teach wealth management to younger family members.”*

—Justin F. Berman



#### How to reach **Justin F. Berman**

To learn more about Berman Capital Advisors, please contact me at 404.554.4999.

#### WHAT MAKES A GOOD WEALTH ADVISOR...

*A good wealth advisor's only agenda is to provide excellent service to clients, with a top-notch team assembled to anticipate and proactively tend to clients' needs.*

#### IF I WEREN'T A WEALTH ADVISOR, I'D BE...

*An athletic director at a major college*

#### WHAT MAKES A GOOD CLIENT...

*We particularly enjoy clients willing to be educated about the financial markets and investments, who are philanthropic and seek to leave a legacy for the community.*

### About Justin F. Berman

Justin F. Berman founded Berman Capital Advisors in 2010 to provide objective wealth management and investment consulting services to high net worth clients. Previously he was a vice president in the Private Wealth Management Group of Goldman Sachs and was a member of the firm's leadership council. He has also held positions within the Investment Advisory Group of MyCFO, Inc. and the Private Client Group at Arthur Andersen. Educated at Georgetown University, where he received his BSBA degree and graduated summa cum laude, he also holds an MBA degree from The Wharton School, at the University of Pennsylvania, where he was a Palmer Scholar. In his nonprofit activities, he is a trustee for Families First, Georgia's leading foster care agency; a trustee of Georgetown University's athletic department; a board member of the Assistance in Healthcare program for The Cancer Treatment Centers of America, Southeast Region; and a member of the American Jewish Committee.

Assets Under Management  
**\$398 million (as of 10/1/2012)**

Minimum Net Worth Requirement  
**\$10 million (for planning and investment services)**

Minimum Fee for Initial Meeting  
**None required**

Largest Client Net Worth  
**Confidential**

Financial Services Experience  
**13 years**

Compensation Method  
**Asset-based and fixed fees**

Professional Services Provided  
**Planning, investment advisory, money management and family office services**

Primary Custodian for Investor Assets  
**Pershing, a BNY Mellon Company**

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