



PLANNING MATTERS

A RESOURCE FROM THE WASHINGTON COUNTY COMMUNITY FOUNDATION

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Component Fund or Individual Trust?

As a professional advisor your clients look to you for tax-wise advice regarding a variety of issues, including how best to structure planned gifts for charity. For clients interested in making a planned gift by bequest to create a new fund at the Washington County Community Foundation, an important consideration is whether the client's gift will be used to create a component fund or individually managed trust. While the Foundation can administer individually managed trusts, our preference is for component funds because the cost to manage a component fund is significantly lower than the cost to manage an individually managed trust. Lower cost results in larger grants to support the charitable cause defined by the donor.

A planned gift is a major gift, made in lifetime or at death, as part of a donor's overall financial and/or estate planning. In the gift planning process, consideration is given to current tax laws, enabling donors to make larger gifts than if the gift was from the donor's discretionary income. The most common type of planned gift is a bequest.

In 1976, the Internal Revenue Service issued Treasury Regulations that endorsed and codified the variance power as an essential feature of community foundations. The regulations recognized that a community foundation that is comprised of many separate trusts is a single public charity, rather than treating the trusts as separate private foundations.

As a result, donors who create their own component funds within a community foundation

enjoy more favorable income tax deductibility than donors who give to a private foundation (or an individually managed trust), and their funds escape the tax on investment income and the annual distribution requirements that would apply to assets held in a private foundation (or an individually managed trust).

To qualify for single entity treatment, the community foundation must meet several

requirements, including having the power to modify the terms of a component fund. Treas. Reg. §1.170A-9(f)(11)(v)(B)(1) provides that the governing body must have the power to modify a restriction on the use of a fund if a restriction effectively becomes “unnecessary, incapable of fulfillment, or inconsistent with the charitable needs of the community or area served.”

The Washington County Community Foundation administers close to 200 component funds under one tax exemption number. Each of these component funds has a governing document which defines the purpose of the fund. Most often the governing document is a fund agreement signed by the donor, but sometimes the governing document is the donor’s Will. To assist advisors in preparing a client’s Will we offer the following draft language for creation of a new component fund:

“I give the sum of \$_____ (or _____ % of my residuary estate) to the Washington County Community Foundation, EIN 25-1726013, to create the (Name of Fund), as a permanent, component fund of the Foundation to support (describe charitable purpose).

Provisions may also be made to execute a component fund agreement during your client’s lifetime, with direction for a bequest in the Will as follows:

“I give the sum of \$_____ (or _____ % of my residuary estate) to the Washington County Community Foundation, EIN 25-1726013, to be credited to the (Name of Fund), a permanent component fund of the Foundation.

Fund Types

Discretionary Funds – support the changing and emerging needs of the community as selected by the WCCF Board of Trustees. Discretionary funds are used to support charitable projects benefiting Washington County in the areas of the arts & humanities, community improvement, education, environment & animal welfare, health & fitness, human needs and religion & faith-based.

Designated Charity Funds – support specific charities identified by the donor

Field of Interest Funds – support specific causes identified by the donor

Scholarship Funds – may be merit based or need based as selected by the donor. Other criteria may be considered.

Donor Advised Funds – The donor or donor designee may annually participate in the selection of the charities or charitable purposes to benefit from grants from the fund.

If you have a client who is interested in creating a component fund at the Community Foundation, but the client is uncertain how best to structure the fund, we would welcome the opportunity to meet and discuss the alternatives. Please contact us at 724-222-6330 or development@wccf.net.

Previous editions of Planning Matters are available on the Foundation's website at www.wccf.net/for-professional-advisors/planning-matters.

WCCF Legal Committee Members



Kenneth L. Baker



James H. McCune



Edward C. Morascyzk

Washington
County Community Foundation, Inc.

724-222-6330 | info@wccf.net | www.wccf.net

