

**The Wilson Group at Morgan Stanley**

Eric S. Wilson, CIMC®, Family Wealth Director

“How do I transition my family’s foundation to a donor-advised fund?”

By Eric S. Wilson

According to the 2013 *Foundation Source Annual Report on Private Foundations*, of the more than 86,000 private foundations in the U.S. today, 60 percent were created in the last 15 years alone. Additionally, the report states that a substantial number of these foundations have assets totaling less than \$1 million. (For a copy of the full report, please email me.) Other authors have shared in these pages over the past few months the benefits of having a private foundation to carry out one’s philanthropic passions. Still other authors have dedicated their articles to contrasting a private foundation with a donor-advised fund, basically pointing out the benefits and drawbacks of a private foundation versus a public charity.

The bottom line is that because private foundations are usually funded from a single source (i.e., a family or corporate contribution), their support and control are more centralized than occurs with public charities, which generally receive broad support from a large number of sources within the general public. This is why private foundations are more strictly regulated than public charities and why the annual administration is significant, as are the penalties for not following those procedures.

It is clear that administrative ease and costs are better with a public charity, tax benefits for contributions are better with a public charity and privacy is better with a public charity. So then, why, with private foundation benefits being less than public charity benefits, would an individual/family wish to continue with a private foundation? The answer usually comes down to two reasons: (1) control and (2) cachet.

However, over time, asset levels may fall, the philanthropic verve of the donor may wane and the desire for control and cachet may yield to the longing for the simplicity of outsourcing the administrative burden and obtaining cost savings. If this rings true with you, what follows are the steps necessary to transition your private foundation to a 501(c)(3) IRS qualified public charity, including a donor-advised fund.

01 You must comply with all the provisions for dissolution set forth by the document that created the foundation.

02 You must identify or establish (in the case of a donor-advised fund) the IRS qualified public charity that will receive the assets. Note: Revenue Ruling 2003-13, Section 1.507-

2(a)(1) states that the qualified public charity must have been in existence for at least 60 continuous months.

03 If the foundation has made long-term contractual commitments or pledges, satisfy them.

04 Pay accounting and legal costs to dissolve the foundation before you make the final distribution to the qualified public charity.

05 Be certain that your last transfer/distribution is to the qualified public charity and that you include/have included the 5 percent payout required of foundations in the year of dissolution.

06 On the next tax return, indicate that this is the foundation’s final return and then check applicable state laws to dissolve the foundation.

While private foundations certainly have their place, a family should question whether the control and cachet they offer warrants the additional baggage these entities impose. If not, transition to a public charity and the expenses you save will yield additional resources available to invest in your philanthropic passion. 

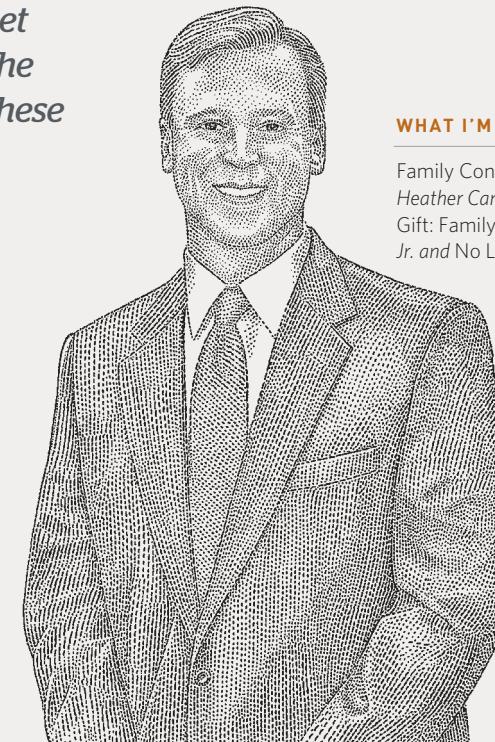
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—Eric S. Wilson

WHAT MAKES A GOOD CLIENT...

A first or second generation family of wealth that desires to improve the odds of the successful transition of their wealth to subsequent generations

**How to reach Eric S. Wilson**

Families may reach me with questions or with interest at 877.442.5445 or eric.s.wilson@morganstanley.com.

WHAT I'M READING NOW...

Family Conflict: Managing the Unexpected, by Heather Canary and Daniel Canary; The Cycle of the Gift: Family Wealth and Wisdom, by James E. Hughes Jr. and No Longer Awkward, by Amy Florian

MY HOBBIES ARE...

Being a husband and a father, playing tennis, upland hunting and reading

About Eric S. Wilson

Eric S. Wilson is a wealth advisor and senior vice president at Morgan Stanley, and for the past 19 years he has served the varied needs of families whose wealth has the potential to change the essential nature of their descendants’ lives. Mr. Wilson began his career at Merrill Lynch in 1994, where he served until joining Morgan Stanley in 2010. For his work with affluent and high net worth families throughout the southeastern United States, he has been specially designated at Morgan Stanley as a family wealth director. Achieving this prestigious designation meant adhering to stringent quantitative and qualitative requirements set forth by Morgan Stanley and now provides him with specialized and dedicated resources from around the firm, which benefits his clients by providing them with many of the same services offered by family offices. Mr. Wilson is a Certified Investment Management ConsultantSM (CIMC[®]) and an Accredited Investment Fiduciary Analyst (AIFA[®]). He proudly serves on the advisory boards of the Community Foundation of Central Georgia and Children’s Hospital of Central Georgia and is a member of the Macon Estate Planning Council. He and his wife, Cindy, are proud parents of four sons, ages 12, 12, 12 and 5.

Assets Under Management
\$1.8 trillion (Morgan Stanley Wealth Management, as of 3/31/13)

Minimum Fee for Initial Meeting
None required

Minimum Net Worth Requirement
\$5 million (planning services); \$2 million in investable assets (investment services)

Largest Client Net Worth
\$25 million+ (as of 12/31/12)

Financial Services Experience
19 years

Compensation Method
Asset-based fees and commissions (investment and insurance products)

Primary Custodian for Investor Assets
Morgan Stanley Smith Barney LLC

Professional Services Provided
Planning, investment advisory and money management services, advanced wealth transfer planning and liability management

Association Memberships
IMCA, Fiduciary 360 (www.fi360.com)

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