

Comparison of a private foundation and an endowment fund at a community foundation

Features	Community Foundation (CF)	Private Foundation
Definition	A CF, which is a public foundation, must have more than 50% of its directors dealing with each other at arm's length and its capital contributed from a variety of donors.	50% or more of directors/trustees do not deal with each other at arm's length and/all or most of the capital is contributed by one person or persons not dealing with each other at arm's length.
Process to create fund/foundation	<ul style="list-style-type: none"> • A fund at a CF does not need to be registered with Canada Revenue Agency (CRA) because a CF is already a registered charity. • Donors can create a fund with a minimum donation and can choose from a variety of fund types such a donor-advised, field of interest, designated, etc. • No legal or start-up costs to create a fund. • Fund exists in perpetuity. • A named fund is publicly recognized in perpetuity a CF's annual reports and other publications. 	<ul style="list-style-type: none"> • Must be recognized by Canada Revenue Agency as a charitable organization • The creation of a private foundation requires an important capital investment.¹ • Legal costs needed to establish a private foundation and obtain charitable status are between \$2,000-\$5,000. • The duration of a private foundation depends on the willingness of successive generations.
Tax Considerations	<ul style="list-style-type: none"> • Donors receive a charitable receipt. • Donors can claim credit against their income taxes to a maximum of 75% of the net income, and if that amount donated in one year exceeds the 75% limit; the excess can be claimed against taxes payable in the following year or in any of the next five years. • In the year of death, 100% of a charitable donation can be deducted from net income, with a one-year carry-back provision. • When gifting appreciated public shares to establish a fund or to contribute to an established fund, the taxable portion of the capital gains tax is eliminated. • A charitable receipt is issued for gifts of private company shares. 	<ul style="list-style-type: none"> • Donors receive a charitable receipt. • Donors can claim credit against their income taxes to a maximum of 75% of the net income, and if that amount donated in one year exceeds the 75% limit, the excess can be claimed against taxes payable in the following year or in any of the next five years. • In the year of death, 100% of a charitable donation can be deducted from net income, with a one-year carry-back provision. • When gifting appreciated public shares to a private foundation, the taxable portion of the capital gains tax remains at 50 %. • No charitable receipt is issued for gifts of private company shares.

¹ Legal advisors will generally recommend a minimum of \$5.0 to \$10.0 Million

Investment management	<ul style="list-style-type: none"> • A CF Board sets investment policy • Investment committee made up of volunteer investment and finance professionals who recommend the hiring of investment managers and monitor their performance. 	<ul style="list-style-type: none"> • Trustees/ Directors set the investment policy. • Trustees/ Directors manage the funds directly or hire professional investment managers and monitor their performance.
Grantmaking	<ul style="list-style-type: none"> • A CF is required by law to disburse a minimum of 3.5% of the investment assets, as well as 80% of receipted donations received in the preceding year, excluding gifts by will and gifts made during the owner's lifetime subject to a direction that the property given be held for a period of at least 10 years. • A grant committee and the CF Board are responsible for granting activities. • Family / donor can be directly involved in the granting process, or entrust the CF Board to make granting decisions. • In virtue of its Act or Articles of Incorporation the CF offers a wide range of permanent funds (health, education, social services, arts and culture, environment, etc.) • Donors can rely on CF's expertise in grantmaking . 	<ul style="list-style-type: none"> • The foundation is required by law to disburse a minimum of 3.5% of the investment assets, as well as 80% of receipted donations received in the preceding year, excluding gifts by will and gifts made during the owner's lifetime subject to a direction that the property given be held for a period of at least 10 years. • Trustees/ Directors (which may be family) control all granting decisions. • The granting of the foundation is limited to the specific objects and sectors identified in its Act or Articles of Incorporation.
Administration	<ul style="list-style-type: none"> • A CF undertakes all record-keeping, accounting, tax filing, fund management, grant-making and due diligence at very low cost. 	<ul style="list-style-type: none"> • Trustees/ Directors are responsible for all record-keeping, accounting, tax filing, fund management, grant-making and due diligence.

The comparison chart has been adapted with permission from the La Fondation du Grand Montréal / The Foundation of Greater Montréal.



Community Foundations
of Canada Fondations
communautaires
du Canada