

Case Strategy: *Making Grants to Foreign Charities*

GRUBER



Heinz Gruber was born in Germany and raised in an orphanage, but moved to America in the 1970s. Over the years, he started a family, built two thriving businesses and became a naturalized citizen in 1976. Heinz and his wife, Mary, gave \$50,000 to the orphanage this year and want to support the orphanage in the future, but are dismayed to learn that individuals cannot claim an income tax deduction for gifts to foreign charities.

The Grubers' financial advisor explains that by creating a Private Foundation (PF), the Grubers can make gifts to foreign charities. A PF is a separate tax-exempt charity usually funded and operated by one family. Although most PFs make their grants to U.S. charities, with some extra recordkeeping, any PF can make grants to foreign charities.

Acting on their financial advisor's expertise, the Grubers create the Gruber Family Foundation, fund it with \$1,000,000 of appreciated publicly traded stock from their investment portfolio and receive a \$1,000,000 income tax deduction^{1,2}. The PF sells the stock and invests in a diversified portfolio designed to distribute 5% of value each year to the Grubers' favorite charities.

During their life, the Grubers run the PF like a family business that invests in charities. They serve on the board, hire and review the investment manager and determine the charitable recipients. Before their PF approves a grant to a foreign charity, it must review an affidavit from the charity including its articles of incorporation, bylaws, and financial information³. Per IRS regulations, the Gruber Family Foundation also implements a document retention policy to ensure it retains a copy of the material at least four years after each grant to a foreign charity is made.

By using their Private Foundation, the Grubers claim a large income tax deduction and have the satisfaction of making gifts to charities both in the U.S. and in their homeland.

¹ Deduction may be limited. Consult a tax advisor.

² Additional deduction limitations apply if the funding asset is other than cash or publicly-traded securities.

³ See Revenue Procedure 92-94.

For more details about this strategy or any other charitable or trust case, please call Renaissance at 800.843.0050.

This example is hypothetical and for educational use only. The situations, tax rates or return numbers do not represent any actual clients or investments. There is no assurance that the rates depicted can or will be achieved. Actual results will vary. Please consult with legal and tax counsel about the suitability of this plan before proceeding.

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6100 W. 96th Street • Suite 100 • Indianapolis, IN 46278 • Ph: 800.843.0050 • Fax: 877.222.1829