

Considering a Community Support Organization?

Basic considerations

Community Support Organizations (CSO) should be the centerpiece of every financial plan. CSOs offer tax advantages and flexibility of use that are not available through any other form of domestic or offshore planning vehicle.

Two important features of CSOs are the source of the tax advantages and flexibility.

- ◆ A CSO qualifies for tax treatment as a §501(c)(3) organization
- ◆ The restrictive self-dealing rules applied to other types of charitable trusts and private foundations are not applicable.

A CSO is organized to support a public charity, financially, or by conducting operations that the public charity would ordinarily do but for the work of the CSO. Those that are organized to support a public charity normally upstream 1% of their asset base each year. Those that are organized to do activities that would otherwise be done by the public charity may have no upstream requirement.

A CSO may be organized to support the work of many different type organizations. The organizations qualified, or whose charitable functions are qualified, are formed under:

§501(c)(3) Charitable, Religious, Educational, Scientific, Literary, Testing for Public Safety, Fostering national or international amateur athletic competition, Prevention of Cruelty to Children or Animals. Relief of the Poor, the Distressed, or the Underprivileged, Advancement of Religion, Education or Science, Lessening the burdens of government, Lessening the burdens of neighborhood tensions, Elimination of prejudice and discrimination, Defense of human and civil rights secured by law, Combating community deterioration and juvenile delinquency.

§501(c)(4) Civic leagues and social welfare organizations

§501(c)(5) Labor, agricultural and horticultural organizations

§501(c)(6) Business leagues - such as Chambers of Commerce and Boards of Trade

There are several issues that normally arise when an individual, or their advisors, first hear about forming a CSO. We have written our answer to these questions in simple terms.

Q. What is the exit strategy?

A. This question illustrates a basic misunderstanding and limiting of the uses of charitable trusts and the tax and economic advantages they provide. A CSO provides immediate tax benefits and may provide economic benefits and a direct income stream to the donor, the donor's family, and to future generations. Unlike the Charitable Remainder Trust family, with a CSO there is no remainder to be given away. The trust may continue in perpetuity. The Donors are allowed to select their own successors, who may do the same, and so on for generations to come. The assets in the trust accumulate tax-free.

If income is paid to any individual (management activities are not required to be done) that income is considered as current income and subject to tax as such. If loans are made to the donor or to others, they are simply loans (if made on market terms) and the interest paid is deductible (subject to normal rules) to the payor, but is not taxable to the trust.

(A separate page details the types of expenditures that a CSO may properly incur – see index)

A CSO may also make investments in the business of the Donor or Donor's family. There are limitations as to how much of the business may be owned, and there are prudent investment rules to comply with, but within those rules, the CSO may invest a substantial part of its funds as described.

A CSO may also be a co-owner of a Title Holding Corporation. A Title Holding Corporation owned by a CSO may hold real estate and collect the income from the property. The Title-Holding Corporation may pay normal management and other expenses and then pays its net income to the CSO. If the CSO is organized to support schools, colleges or universities, then the Title-Holding Corporation may have debt financed income and not be subject to tax under §514(c)(9) or endanger its exempt status. A Title-Holding Corporation may also establish reasonable depreciation reserves and other reserves that would be proper for a commercial enterprises conducting the same activity and may retain part of its income each year to apply to debt. A CSO may sell its interest in the Title Holding Corporation or the Corporation may sell its interest in the property held under normal market terms to any person, including the principal donor to the CSO.

FREQUENTLY ASKED QUESTIONS

- Q.** Why should I be interested in a CSO when I have no charitable interests?
- A.** Reread the list of organizations and purposes that may potentially qualify. Then consider the value of the following benefits:
- ◆ The benefit of a tax deduction on the funds and asset(s) gifted to the trust
 - ◆ The value of growing the asset in a tax-free trust while retaining the opportunity to utilize the trust assets for economic benefit.
 - ◆ The significant life insurance strategies available
 - ◆ The value of knowing that your assets are asset protected
 - ◆ The value of avoiding estate taxes when these assets are passed to another generation.
 - ◆ The value of the social capital gained by utilizing your CSO to aid important charitable work in the community.

If your answer does not come up on the plus side - then a CSO is not for you.

- Q. Why haven't I heard about Community Support Organizations before?**
- A. CSOs are not new. They are used by many large charitable organizations, by many colleges and alumni organizations, by hospitals, by international service organizations, by communities, and by the very wealthy of America and by wealthy international people wishing to invest their funds in America without creating tax complications. If you have not heard of these before, please consider that there may be some additional strategies about which you may not have been advised. Keep reading our site!**
- Q. My university or international service organization has a Support Organization. I could donate funds or appreciated assets into their Support Organization through a Donor Advised Fund. Why should I go to the expense and effort of establishing an independent CSO?**
- A. Flexibility, increased economic benefits, and the ability to establish your own fund in perpetuity. The Donor Advised Funds of these organizations provide the same tax benefits, because they are based upon the same tax law. What they do not provide are the same opportunities to utilize the trust or to gain local social capital - and, most importantly, they generally require that at least one-half of the assets in your fund be given to the supported organization at your death (or your spouse's later death), allow you to appoint only one generation after you, and require that the balance in the fund be given to the organization at that death. Therefore, the typical Donor Advised Fund may be less advantageous to you than a Charitable Remainder Trust or Charitable Annuity, and is much less valuable to you than your own Community Support Organization. Of course, there are many good reasons for charity that are far beyond the personal financial benefits.**