

Analyzing the Benefits of Giving through a Supporting Organization

What is a supporting organization?

Supporting organizations are in essence a cross between a private foundation and a public charity, with some benefits of each.

The Tax Reform Act of 1969 created private foundations and imposed greater restrictions upon this classification including excise taxes and lower donor deductions for contributions. This Act also created supporting organizations as an exception to private foundations because they are organized, operated, and controlled in the public interest.

The key feature of a supporting organization is a strong relationship with the charity it supports. For an organization to qualify as a supporting organization, it must meet the requirements of the Internal Revenue Code § 509(a)(3), such as responsiveness to the needs of the public charity, and public charity oversight of the operations of the supporting organization. This strong relationship allows the supporting organization to be classified as a public charity, even though it may be funded in a manner similar to a private foundation.

What are the benefits of a supporting organization?

A supporting organization offers many of the operational advantages of a private foundation and the tax advantages of a public charity.

Like a private foundation, a supporting organization can be funded by either an individual, a family, or a corporation. Like a public charity, a supporting organization has distinct tax advantages. A private foundation is subject to excise taxes as well as investment and distribution regulations from which supporting organizations are exempt. In addition, donations to a supporting organization garner a higher percentage deduction than donations to a private foundation, and donors to a supporting organization may deduct gifts of appreciated assets at their fair market value, while gifts to a private foundation cannot. Thus, supporting organizations provide superior tax benefits, all the while allowing for family involvement.

There are three types of supporting organizations. A Type I supporting organization offers the most advantages, and is a great gift vehicle for a donor with advanced philanthropic interests.

Supporting organizations are often the gift vehicle of choice for high net worth donors because supporting organizations allow for greater personal involvement than other philanthropic options. Donors and their families can select their organization's name and mission. In a Type I supporting organization, the supported organization (The Ohio University Foundation) appoints a majority of board members, but there still can be substantial room for donor involvement in the giving process. The family can have minority representation on the board and may help select projects to be funded.

A supporting organization offers many of the benefits, with none of the burdens of a private foundation. A supporting organization enables families to establish a tradition of giving by involving future generations and to maintain a legacy that can continue in perpetuity. Supporting organizations also minimize the administrative burdens and expenses that are inherent in managing a private foundation. This allows donors to focus on philanthropy rather than paperwork.

If you are interested in founding a supporting organization in support of The Ohio University Foundation, or if you have questions about how a supporting organization could work for you, your family, and The Ohio University Foundation, please contact Kelli Bell at (740) 597-1819 or bellk@ohio.edu.