

What is a Private Foundation?

A tax-exempt charitable organization that permits donors to exercise a greater degree of control over the operation and grant-making activities than if the donor either made an outright gift to a public charity or established a donor-advised fund maintained by a public charity.

Contributions to a private foundation are generally income tax deductible. In addition, a private foundation may be a recipient of the remainder interest in a charitable remainder trust or income interest in a charitable lead trust.

How does it work?

A donor works with an attorney to create a tax-exempt entity, including filing appropriate forms and drafting organizational documents. Donor appoints individuals to the foundation's governing body and funds the private foundation with assets of their choosing. The foundation then makes grants to organizations every year based on policies established by the governing body.

Description	Private Foundation
Donor	Individual, Corporation, Partnership or Trust
Best Suited For	Donors who want to retain control of assets and grant-making decisions
Assets to Contribute	Liquid or Illiquid
Revocable or Irrevocable	Irrevocable gift
Income Potential	Yes; family members can be paid employees of the foundation
Required Distribution	5% annually of the net asset value
Charitable Deduction for Gifts of Publicly Traded Securities	20% of AGI; Deduction for Fair Market Value
Charitable Deduction for All Other Gift Types	30% of AGI for cash gifts; 20% of AGI for stock or real property. Deduction limited to the smaller of cost basis or value for gifts of appreciated assets
Investment Options	Foundation hires investment manager who can recommend a wide-range of options
Additional Contributions	Yes
Excise Tax	Typically 2% of the annual net investment income
Administration, Annual Filings & Compliance	Foundation must file a tax return, conduct a financial audit and perform required compliance