

# Building Your Philanthropic Legacy: Private Foundations

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A private foundation is a type of non-profit, tax-exempt organization that is typically funded by an individual, family, or corporation to support charitable causes through grant making and allows donors to establish a philanthropic vehicle under their control to make grants in line with their charitable interests, while benefiting from tax advantages.

## Key Points:

- Private foundations may be set up as a trust or a non-profit corporation which is classified as 501(c)(3) organization per an IRS approval process.
- Unlike public charities that rely on public fundraising for support, private foundations derive their funding from a single source or small group.
- Donor(s) contribute cash, securities, or other assets and receive an immediate tax deduction of up to 30% of their adjusted gross income (AGI) for cash and 20% of AGI for appreciated property. Excess deductions can be carried forward for up to 5 years.
- The donor(s), or their appointed trustees or board, retain control over the foundation's operations, including its missions, investments, and grant making decisions.
- Private foundations are required to pay out at least 5% of their assets annually in qualifying distributions (grants, administrative expenses, etc.).
- Private foundations are subject to various restrictions and taxes, such as a 1.39% excise tax on investment income and high penalty taxes on certain prohibited transactions, such as self-dealing by insiders.
- Private foundations can exist in perpetuity, allowing donors to leave a lasting legacy and continue supporting causes they care about indefinitely.
- Under certain conditions, private foundations can make grants to a wide range of recipients, including individuals in need, foreign charities, and non-501(c)(3) organizations.

Private foundations offer significant tax advantages, flexibility in giving, opportunities for family engagement, and the ability to create a lasting philanthropic legacy under the donor's control. However they also require substantial upfront costs to establish and ongoing expenses to operate and maintain including legal, accounting, and administrative fees, excise taxes, and minimum payouts. Because of these costs and the administrative complexities, we suggest that a foundation be established with at least \$1 million. If the initial funding amount is less than this amount, alternative charitable vehicles, such as a Donor-Advised Fund may be a more cost-effective alternative.

*A private foundation is a sophisticated gift planning vehicle, and as with all such vehicles, professional counsel should be retained to fully analyze the effectiveness of a particular vehicle given a particular set of circumstances.*

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