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Modern charitable giving ranges from text messaging a donation to a public charity to starting a donor-advised fund with a local charitable organization to setting up a private foundation to oversee generations of giving within your family. A private foundation is comparatively more expensive to organize and administer and normally requires a much larger initial contribution to justify this expense; however, private foundations are increasingly being used by individuals, families, and organizations to make tax-advantaged donations while retaining a higher level of discretion and control over the use of the donations.

A private foundation is a tax-exempt organization that is primarily funded and controlled by an individual, family, or business. A private foundation may be organized as a trust or corporation and must be used exclusively for charitable purposes as described in section 501(c)(3) of the Internal Revenue Code. Private foundations are frequently organized as grant-making foundations so that the foundation's sole purpose is to allocate donations among certain charities. For example, a private foundation may be organized only to benefit educational institutions and give family members discretion to determine how the foundation's yearly donations are allocated to certain schools (perhaps with a preference to the founder's alma mater).

The operation of a private foundation must comply with certain IRS requirements. In general, private foundations can hold investments similar to a normal portfolio and are typically exempt from income tax on investments, although an excise tax on net investment income may apply. A private foundation is required to disburse at least 5% of the prior year's average net assets for charitable purposes.

Donations to a private foundation are normally deductible against a donor's income taxes up to 30% of adjusted gross income for money and up to 20% of adjusted gross income for appreciated securities. Testamentary transfers to a private foundation are 100% deductible on a decedent's federal estate tax return. Utilizing a private foundation is a unique way to continue to promote family involvement in charitable organizations after one passes away while reducing exposure to

federal estate taxes. [Estate planning](#) documents may provide for the formation and funding of a private foundation and still take advantage of this deduction.

Private foundations generally provide more flexibility and control than other types of charitable contributions. While a donor-advised fund is a great low-cost alternative to a foundation, it is simply an account at a public charity that is governed by the charity itself with advice from the donor. A private foundation is its own separate tax-exempt organization which means donors generally retain a higher level of control over grants and other disbursements. Further, a private foundation may hire staff and even employ family members so long as the compensation arrangement does not violate IRS regulations.

The rules governing the formation and operation of private foundations are riddled with traps for the unwary. This is especially true of any disqualified person who transacts business with the private foundation that the IRS deems “self-dealing.” A disqualified person is any officer, director, trustee, or substantial contributor to the private foundation, owners of a company that is a substantial contributor, and family members of everyone listed above. Self-dealing includes buying or selling items to the foundation, personal use of foundation property, borrowing money from the foundation, and leasing space from the foundation.

The organization and administration of a private foundation can be very complex and should be done only after consulting skilled tax and legal advisors. In appropriate situations, a private foundation is an excellent way to promote a legacy of charitable giving throughout generations of your family in a tax-advantaged way while allowing you and your family to retain discretion and control over the charitable giving for years to come. If you have questions about charitable giving or think a private foundation may be right for you and your family you should consult an experienced charitable advisor such as an [estate planning attorney](#).

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