

Welcome to...

Understanding Foundations, DAFs and Other Forms of Philanthropy



PRESENTED BY: DON KRAMER

What Do We Mean When We Say “Nonprofit”?



State law concept

Exempt from federal income tax

Sec. 501(c) 29 categories

501(c)(3) charities

What Do We Mean When We Say “Nonprofit”?



501(c)(3) charities

Distinguishing features

Deductibility of contributions

Limited lobbying

No electioneering

What Do We Mean When We Say “Nonprofit”?



501(c)(3) charities

Public Charities

509(a)(1) Donative

509(a)(2) Commercial

509(a)(3) Supporting Orgs

Private Foundations

Private Operating Foundations

What Do We Mean When We Say “Nonprofit”?



- Non-exempt nonprofits
New York Stock Exchange until 2006
- State tax-exempt
- *Citizens United* and the confusion of language

What Do We Mean When We Say "Foundation"?

Comparing Public Charities and Private Foundations



- ✓ Limits on Deductibility
 - Percentage limits
 - Appreciated property
- ✓ IRA rollover
- ✓ Excise Tax on Investment Income

Comparing Public Charities and Private Foundations



- Anonymous donors
- Required Payout
- Grants to individuals
- Scholarship grants

Comparing Public Charities and Private Foundations



Grants other than to public charities

Excess benefits vs. self-dealing

Excess business holdings

Jeopardy Investments

Lobbying and other Taxable Expenditures

Donor Advised Funds



Advantages

Speed to establish

Administrative Costs

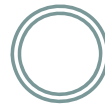
Deductibility

Anonymity

Assistance with grantmaking

No charitable solicitation registration

Donor Advised Funds



Disadvantages

No control of grants or investments

No payments to individuals

No excess business holdings

No IRA rollover

No program administration

No jobs for donors or family

Foundation tax on investment income Sec. 4940



Includes net capital gain

May be reduced to 1%

Taxes on Self-Dealing Sec. 4941



Taxes on Disqualified Persons (Sec. 4946)

Substantial contributor

Foundation manager

Owner of 20% of entity that is substantial contributor

Taxes on Self-Dealing Sec. 4941



Disqualified Persons (Cont.)

Family member of above (spouse, ancestor, children, grandchildren and great grandchildren and their spouses)

Entity more than 35% owned by above

Certain governmental officials

Taxes on Self-Dealing Sec. 4941



Self-dealing transactions

Sale, exchange or lease of property

Lending money or extension of credit

Furnishing goods, services or facilities

Taxes on Self-Dealing Sec. 4941



Self-dealing transactions (Cont.)

Compensation, unless reasonable and
for foundation's exempt purpose

Use of assets for benefit of disqualified person

Compensation of government officials

Taxes on Failure to Distribute Income Sec. 4942



Distributable Amount

5% of value of net investment assets
less excise tax on investment
income

Must be distributed by end of following fiscal year

Limit on Excess Business Holdings Sec. 4943



Private foundation may not own more than 20%
of interest, less amount owned by DQ

or

if controlled by unrelated third party, 35%
of interest, less amount owned by DQ

Does not apply to functionally related business
or where 95% income from passive
sources

Limit on Excess Business Holdings Sec. 4943



Excess holdings acquired (other than by purchase)
must be disposed of within 5 years

Possible extension to 10 years if approved by IRS

Tax on Jeopardy Investments Sec. 4944



Jeopardize carrying out exempt function

Exception for Program Related Investments

To accomplish exempt purpose

No significant purpose for income

No purpose lobbying or politics

Socially responsible investments

Tax on Taxable Expenditures Sec. 4945



Lobbying (except self-defense lobbying)

Voter registration, unless 5 state nonpartisan

Grants to individuals for travel, study, etc.,

unless approved by IRS

Grants to other than public charity

unless expenditure responsibility

Tax on Taxable Expenditures Sec. 4945



Expenditure Responsibility

Assure grant spent for charitable purpose

Obtain full reports from grantee

Report to IRS on 990-PF

Termination of Private Foundation



Grants to public charities existing for 60 months

Transfer to Donor Advised Funds

Spend down and pay termination tax of remaining \$

Other Forms of Charitable Activity



- Chan-Zuckerberg limited liability company
- Philadelphia Inquirer transaction
- Use of (c)(4) organizations
- Newman's Own Foundation

Questions?



Contact Information



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