

Building a Private Foundation: Is It The Right Choice?



Those with an interest in putting more structure and planning into their charitable giving may consider creating a private foundation. However, before they head down that road, there are 6 issues that need consideration:



1. Start-Up Expense:

A private foundation comes with initial start-up expenses in legal costs. Some services that specialize in foundation administration charge \$4,500 to start a foundation, while private attorneys specializing in trusts and nonprofit corporations often charge upwards of \$7,500 to \$25,000 in legal fees to handle the state and federal filing process.

2. Ongoing Expense:

A private foundation has annual operating expenses. Third party services could charge a minimum annual administrative fee of \$5,000. Depending upon the size and structure of the foundation, foundations can incur additional expenses for excise tax, in-house staff, rent, travel, accounting, tax preparation, and other costs of administration, program analysis and operation.

3. Taxes:

The tax benefits available to private foundations are significantly less beneficial when compared to other choices.

4. Initial Fund Establishment:

A generally accepted standard is that a foundation would need initial funding of at least \$500,000 to warrant the effort if using a third party administrator. If the foundation is privately hiring a staff to handle administrative services, then \$3 - \$5 million in assets is preferable.

5. Required Annual Distributions:

By law, foundations are required to disburse 5% of their holdings annually to charity regardless of the donor's willingness, and regardless of market conditions. The operational expenses mentioned earlier also impact this 5% amount, eroding the amount available for charitable use.

6. Privacy:

In spite of their name, private foundations are not private. The donations granted and the investments made by the foundation are a matter of public record available for review in IRS Tax Form 990PF that must be filed by all foundations.

Other giving vehicles, such as donor advised funds, may prove easier to implement and allow one to devote more of their dollars to their charitable intent instead of operational and legal expense.