

Effective Compliance and Reporting for Private Foundations: Tying It All Together

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Strategies

Policies, procedures, checklists

Strategies for effective PF compliance

Steps to foster tax compliance for private foundations “PFs”):

- Establish internal controls to protect assets with awareness of PF rules.
- Educate all decision-makers – board, staff members, and accountants – about constraints imposed on financial transactions of a private foundation.

Strategies for effective PF compliance, cont.

- Hire professionals – investment managers, lawyers, and accountants – that are familiar with PF rules.
- Design programs that can abide by rules:
 - Grants to individuals
 - Grants to organizations
 - Direct charitable programs

Strategies for effective PF compliance, cont.

- Utilize the checklists provided in materials that contain a myriad of detailed questions regarding issues that a PF must pay attention to.
- Rules will be illustrated with examples of transactions that violate rules with suggestions for alternative route.

Basic Rules

- Excise Tax on Investment income: §4940 imposes a 1-2% tax on a PF's income from investments and certain exempt assets.
- Self-dealing: §4941 forbids, with some exceptions, financial transactions between a PF and those that created, funded, or manage it.
- Mandatory Payout: §4942 requires PF to spend 5% of FMV of non-exempt assets for qualifying charitable purposes each year.

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