




Private Foundations: Compliance and Operational Framework for Maintaining Tax-Exempt Status

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  Budgeting and Staffing
  Know-How
  Results







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“Chapter 42” Requirements

<p>A Private Foundation <u>MUST</u></p> <ul style="list-style-type: none"> • Pay 1.39% tax on investment income (§4941) • Make sufficient annual distributions (§4942) 	<p>A Private Foundation <u>MUST NOT</u></p> <ul style="list-style-type: none"> • Engage in self-dealing transactions (§4941) • Retain “excess business holdings” (§4943) • Make “jeopardizing investments” (§4944) • Make “taxable expenditures” (§4945)
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The “Must Nots”


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I.R.C. §4941: Prohibition on Self-Dealing

Applies to transactions between foundation and any “disqualified person”:

<ul style="list-style-type: none"> A. Substantial Contributor B. Officers, directors, trustees, certain employees C. >20% owner of a substantial contributor entity D. Member of family of A-C 	<ul style="list-style-type: none"> E. Corporation >35% owned by A-C F. Partnership >35% profits interest owned by A-C G. Trust or estate in which A-C has >35% beneficial interest H. Government officials
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Consequences of Self-Dealing

- 10% initial tax on “disqualified person”
- 5% initial tax on foundation managers
- 200% additional tax on “disqualified person” if transaction not timely corrected
- 50% additional tax on foundation managers who do not agree to correction



Acts of Self-Dealing

- Sale, exchange, leasing of property
- Lending of money; extension of credit
- Furnishing goods, services, facilities
- Payment of compensation/reimbursement of expenses
- Foundation income or assets transferred to, or used by or for benefit of, a disqualified person
- Payments to government officials
- Beware of indirect self-dealing

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