




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

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“Chapter 42” Requirements

<p style="text-align: center;">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 style="text-align: center;">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”:

<p>A. Substantial Contributor</p> <p>B. Officers, directors, trustees, certain employees</p> <p>C. >20% owner of a substantial contributor entity</p> <p>D. Member of family of A-C</p>	<p>E. Corporation >35% owned by A-C</p> <p>F. Partnership >35% profits interest owned by A-C</p> <p>G. Trust or estate in which A-C has >35% beneficial interest</p> <p>H. Government officials</p>
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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 of for benefit of, a disqualified person
- Payments to government officials
- Beware of indirect self-dealing

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