

Private Foundations and Charitable Trusts

Introduction

Each year, private foundations contribute billions of charitable dollars, primarily in the form of grants to charitable organizations, communities, or individuals. These outlays assist in the operation of programs supporting education, arts and humanities, health, human services, and environmental protection. Nonprofit organizations that conduct charitable programs in these areas often depend on foundation grants as a source of financial support.

Like charities that file Form 990, private foundations are tax-exempt under Internal Revenue Code section 501(c)(3). However, a private foundation, which is required annually to file the information return Form 990-PF, *Return of Private Foundation (or Section 4947(a)(1) Charitable Trust Treated as a Private Foundation)*, differs somewhat from a publicly-supported nonprofit organization, largely due to its narrow sphere of support and control. Usually organized as a corporation, association, or trust, a foundation is generally operated and supported by an individual, family, or corporation. Such organizations are classified as either “operating,” referring to foundations that exercise a significant degree of oversight in the operation of their charitable activities, or “non-operating,” referring to foundations that, for the most part, provide financial support to other organizations, which in turn conduct charitable activities. Such support is usually provided in the form of grants to other exempt organizations.

Due to the centralization of support and control, foundations are subject to more stringent regulation than other section 501(c)(3) organizations. For example, foundations are generally required to pay an excise tax on their “net investment income” – income from such sources as interest, dividends, capital gain net income, and royalties. This tax, in most cases equal to 2 percent of an organization’s net investment income, is approximated by IRS to cover expenses incurred in the oversight of foundation activities, as well as the enforcement of laws governing their exempt status. Secondly, those organizations defined as “nonoperating,” which regularly represent more than 90 percent of private foundations filing Form 990-PF, are subject to an annual charitable payout requirement equal to 5 percent of their net investment assets.

Form 990-PF is also filed by section 4947(a)(1) nonexempt charitable trusts, organizations that re-

semble private foundations in that they operate exclusively for charitable purposes and are narrowly controlled and supported, usually by an individual or family. However, IRS does not formally recognize these organizations as tax-exempt and those portions of their income that are not distributed for charitable activities are reported on a separate tax form.

For 1997, domestic private foundations distributed \$16.4 billion in contributions, gifts, and grants, a 13-percent increase over the prior year, nearly keeping pace with a 15-percent increase in total revenue received. Additionally, foundations reported \$342.7 billion in fair market value of assets, the majority of which was composed of investments in securities. Section 4947(a)(1) charitable trusts represent about 5 percent of Forms 990-PF filed for 1997, and reported \$4.8 billion in fair market value of assets. These organizations reported an 11-percent reduction in charitable contributions paid, despite a nearly 28-percent increase in revenue to \$636.0 million.

Articles and tables included in this section provide extensive information on financial items as reported on Form 990-PF for Reporting Years 1991 through 1997. Aggregate data for all years prior to 1997 include foreign foundations and charitable trusts, except where noted. Foreign organizations receiving certain degrees of support from U.S. sources are required to file Form 990-PF, whether or not they choose to distribute grants within the U.S. Beginning with Tax Year 1997, published data are for domestic foundations only.

Recently, data were collected and published for a panel study of large private foundations. The panel included the largest 100 domestic, nonoperating foundations that appeared in the SOI sample for Reporting Years 1985-1997. Results from the panel study are also presented in this compendium.

Program Developments

Data for Reporting Years 1999 and 2000 are currently being edited, for the first time, in a Graphical User Interface (GUI) environment application. The “point-and-click” windows environment, in addition to providing a more navigable editing system for the study “editors,” who enter return information and resolve taxpayer reporting and data inconsistencies, allows for various system enhancements to increase data quality, including improved methods of verifying year-to-year data at the time of editing.

Source: IRS; Compendium of Studies of Tax-Exempt Organizations, 1989-1998; Volume 3, Publication 1416; August 2002