Private foundations

Helping to build philanthropy by adding value and tax risk management for individuals, families and corporations
Private foundations and philanthropy

The dynamics of philanthropy involve complex tax considerations, risks and administrative responsibilities from formation to dissolution. However, the benefits of starting a private foundation have meaningful rewards that can continue well into the future. Using a private foundation as a vehicle for philanthropy can also facilitate organized, systematic and targeted giving, in order to help you achieve your philanthropic goals, the experienced team at Ernst & Young LLP offers unparalleled experience advice in foundation creation and management.

The advantages of creating a private foundation

- Institutional foundations – Activities of institutional, or sometimes operating, foundations set them apart from other foundations, in that these organizations often are directly providing goods or services in the furtherance of their charitable mission, in addition to grant making.

Ernst & Young LLP is here to help you navigate the foundation life cycle, from formation to ongoing compliance, including:

- Discuss and document charitable objectives, with potential structures for grants/programs
- Prepare exemption application and navigate Internal Revenue Service (IRS) process
- Prepare annual federal and state income and information returns
- Analyze alternative investments
- Identify unrelated business income (UBI)
- Develop grant procedures that include grantee vetting, expenditure responsibility and file documentation
- Evaluate foreign grant-making issues
- Perform tax risk and compliance assessments to protect donors and the foundation from penalty excise taxes, which include self-dealing, excess business holdings and taxable expenditures
- Consider conduct elections in order to provide greater charitable giving deductions for a donor
- Plan for long-term distribution requirements and net investment income tax

Interacting with the IRS

As the IRS is expanding its information technology capabilities and being scrutinized to provide better compliance oversight for exempt organizations, it has stated its intention to increase the level of audits of private foundations. Ernst & Young LLP can assist in staying on top of these requirements and managing these increased risks.

Ernst & Young LLP’s Exempt Organization Tax Services practice has a network of professionals with experience working with the IRS, including professionals who previously worked with the IRS Exempt Organizations Division. As a result, we are able to assist our clients with practice and procedure issues based on intimate knowledge of the inner-workings of the IRS, which has proven invaluable in reducing anxiety, achieving financial savings and expediting the resolution of IRS controversies involving tax-exempt organizations.

Alternative investment tax services

The use of alternative investments has become a popular investment strategy used by private foundations to self-generate financing and to maximize their return in an effort to meet their financial challenges and philanthropic goals. While private foundations have increased their use of alternative investments, many organizations have not been able to fully keep up with the requirements of a successful alternative investment strategy, and have found themselves in the reactive position of dealing with regulatory and governance inquiries.

From initial funding to disposition, Ernst & Young LLP has the teams and solutions to help private foundations build and maintain a successful alternative investment strategy and meet the associated challenges with a comprehensive approach designed to help our clients achieve their goals and maintain regulatory compliance.

Investment tax planning

- Structure and financing implications
- Vetting investments
- Debt financing implications

US tax and compliance

- Coordination of information collection
- Unrelated business income analysis and reporting
- Partnership basis calculations and fair market value determinations
- Gain (loss) calculations upon disposition
- Nexus, state apportionment, allocation and tax reporting
- Penalty and tax controversy support

International tax and compliance

- Internal tracking and documentation
- Understanding foreign filing requirements
- Foreign investment structuring
- Financial reporting implications
- Foreign transaction analysis and reporting
- Reportable transactions and other federal reporting requirements

How Ernst & Young LLP can help

Whether your organization’s philanthropic plans include family and employee engagement, disaster relief, succession planning, working with the family office or grant-making, Ernst & Young LLP is able to assist you in achieving your goals in a tax-efficient, risk appropriate manner. Philanthropic goals can vary depending on the type of private foundation involved.

- Individual and family foundations – Board members or trustees typically include the founder(s) and their family members, and the foundation is generally formed to accomplish a specific purpose or mission
- Corporate foundations – The activities of corporate foundations are often managed in connection with for-profit companies, and the objectives of these foundations may include employee community engagement and disaster relief, and be intertwined with the sponsoring corporation.

Private foundation contacts

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Ernst & Young LLP’s Exempt Organization Tax Services practice works with hundreds of nonprofit organizations across the country and can help private foundations assess, prioritize, manage and remedy exemption issues and tax risks.

Governance and compliance risk assessment

Do you know your tax risk? Increased transparency, disclosure and risk affect private foundations as well. In today’s environment, private foundations are trying to install safeguards to public scrutiny, serious penalties and potential loss of exempt status. Ernst & Young LLP can offer help using our risk assessment tool, which includes the following steps:

Step 1: Determine exposure
- What operations and activities have compliance risks?
- At what level is the risk: low, moderate, high?
- Which tax years are affected?

Step 2: Complete assessment
- Complete information and document requests.
- Complete questionnaire.
- Complete supplemental guide and overview of IRC § 4941 – 4945
- Forward assessment and documents to Ernst & Young LLP.

Step 3: Findings
- Analysis completed.
- Written report issued consisting of:
  - Excise tax risk
  - Governance and compliance risk
  - Recommendations for safeguard placement and other actions to reduce risk
Contacts

To find out more about the tax services we provide to private foundations, please contact any of the following tax professionals:

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