



## Building a Private Foundation: Is It the Right Choice?

Those with an interest in putting more structure and planning into their charitable giving may consider creating a private foundation. However, before they head down that road, there are **6 issues** that need consideration:

### 1.) Start-Up Expense:

A private foundation comes with initial start-up expenses in legal costs. Some services that specialize in foundation administration charge \$4,500 to start a foundation, while private attorneys specializing in trusts and nonprofit corporations often charge upwards of \$7,500 to \$25,000 in legal fees to handle the state and federal filing process.

### 2.) Ongoing Expense:

A private foundation has annual operating expenses. Third party services could charge a minimum annual administrative fee of \$5,000. Depending upon the size and structure of the foundation, foundations can incur additional expenses for excise tax, in-house staff, rent, travel, accounting, tax preparation, and other costs of administration, program analysis and operation.

### 3.) Taxes:

The tax benefits available to private foundations are significantly less beneficial when compared to other choices.

### 4.) Initial Fund Establishment:

A generally accepted standard is that a foundation would need initial funding of at least \$500,000 to warrant the effort if using a third party administrator. If the foundation is privately hiring a staff to handle administrative services, then \$3 - \$5 million in assets is preferable.

### 5.) Required Annual Distributions:

By law, foundations are required to disburse 5% of their holdings annually to charity regardless of the donor's willingness, and regardless of market conditions. The operational expenses mentioned earlier also impact this 5% amount, eroding the amount available for charitable use.

### 6.) Privacy:

In spite of their name, private foundations are not private. The donations granted and the investments made by the foundation are a matter of public record available for review in IRS Tax Form 990PF that must be filed by all foundations.

Other giving vehicles, such as [donor advised funds](#), may prove easier to implement and allow one to devote more of their dollars to their charitable intent instead of operational and legal expense.

