



Private Foundations: A Strategic Approach to Business Philanthropy



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Agenda

- ▲ **01** Philanthropy Basics
- ▲ **02** Introduction to Private Foundations
- ▲ **03** Funding and Distributions
- ▲ **04** Contribution Deductibility
- ▲ **05** Donor Advised Funds



Learning objectives



- ▲ Understand philanthropic options available to businesses
- ▲ Understand the basics of Private Foundation formation and structures along with their requirements
- ▲ Understand the basics of Donor Advised Funds

Polling question #1





Section 1

Philanthropy Basics

Reasons Donors Choose to Give

**To support
specific
missions**

**To make an
impact in a
community**

**To leave
a legacy**

**To show
appreciation**

**Scholarships
to build
workforce**

**Employee
engagement**

**Customer
and key
business
partner
engagement**

**Exit
strategies**

Options for Giving

1

**501(c)(3) Public
Charities**

2

**Private
Foundations**

3

**Donor-Advised
Funds**



Section 2

Introduction to Private Foundations

Introduction to Private Foundations



- ▶ Charitable organization that typically receives their funding from a single source
- ▶ Do not generally solicit funds from the public
- ▶ Stricter regulations and oversight
- ▶ Primary purpose is to support charitable, educational, religious, scientific, or literary activities, often through grants to other organizations or individuals

Types of Private Foundations



Non-Operating Foundations

Primarily make grants to
other charities or individuals



Operating Foundations

Directly conduct
charitable activities

Formation and Structure

**Incorporated as
a nonprofit
entity, usually
under state law**

**Application for
tax-exempt
status (Form
1023) with IRS**

**Adopt articles of
incorporation
and bylaws**

Governance

**Board of Directors or
Trustees responsible
for oversight**

**Officers and staff
may be appointed
based on
foundation's needs**





Legal and Tax Requirements

- ▲ Maintain 501(c)(3) Status – must serve public interest and not benefit private individuals
- ▲ Annual Reporting
 - IRS filings – Form 990-PF
 - State filings
- ▲ Public Disclosure Requirements

Excise Taxes

- ▲ Excise tax on net investment income of 1.39%
- ▲ Net investment income
 - Interest
 - Dividends
 - Capital gains
 - Certain rents and royalties
- ▲ Expenses directly related to investment income allowed





Section 3

Funding and Distributions

Sources of Funding



**Personal or
family wealth**



**Corporate
contributions**



**Investment
Income**

Distribution Requirements

Minimum Distribution Requirements

Generally – 5% of the FMV of a foundation's noncharitable-use assets

Qualifying Distributions

- Expenses directly related to charitable purposes
- Grants to public charities or individuals for charitable purposes

Must be paid out in cash

Expenses and grants not paid out in cash do not qualify

Best Practices for Grantmaking



Due Diligence



Verification



Recordkeeping

Polling question #2





Section 4

Contribution Deductibility

Contribution Deductibility

Feature	501(c)(3) Public Charity	Donor Advised Fund	Private Foundation
Deduction Limit – Cash	Up to 10% of Taxable Income	Up to 50% of Taxable Income	Up to 20% of Taxable Income
Deduction Limit – Appreciated Stock	Up to 10 of Taxable Income	Up to 30% of Taxable Income	Up to 30% of Taxable Income
Deduction Value – Appraised Assets	Fair Market Value for publicly traded securities; cost basis for non-publicly traded assets	Fair Market Value for publicly traded securities	Cost Basis for most non-publicly traded assets; fair market value for publicly traded securities





Section 5

Donor Advised Funds

Donor Advised Funds

Immediate Tax Deduction

- Deduction is allowed the year the contribution is made to the DAF, even if the funds are not distributed to the recommended charities in the same year

Flexibility in Grantmaking

- Donors can make recommendations for grants to IRS-qualified public charities at any time

Investment Growth

- Contributions can be invested and increase amount available for future giving

Simplicity

- No separate tax filings, legal, compliance or grant administration

Anonymity

- Donors can opt to remain anonymous




DAF vs Public Charity vs Private Foundation

Feature	Donor-Advised Fund (DAF)	501(c)(3) Public Charity	Private Foundation
Setup & Maintenance	Easy, low cost	Complex, costly	Complex, costly
Tax Deduction Limits	Higher (up to 50% of taxable income)	Typically	Lower (typically 20% of taxable income)
Privacy	Can be anonymous	Can be anonymous	Public disclosure required
Control Over Grants	Recommend only	None	Full control
Regulatory Burden	Minimal	High (IRS Filing)	High (IRS Filing, Excise Taxes)



Questions?

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