PUBLIC CHARITY vs PRIVATE FOUNDATION

	PUBLIC CHARITY	PRIVATE FOUNDATION
CHARACTERISTICS	1 It is a publicly supported organization that is successful in raising funds from numerous sources. 2 It has a diverse board. 3 It provides services that appeal and are accessible to the general public.	1 Its financial support comes mainly from one source (individual, family, company). 2 Its annual expenditures are funded mainly from investment earnings. 3 It makes grants to other organizations rather than operating its own programs.
BENEFITS	• Public charities can receive tax-deductible donations. • There is no excise tax on investment income. • Charities do not need to distribute any of their assets to other nonprofits. • Charities can use part of their annual income on lobbying. • Charities can operate unrelated businesses to supplement their revenue, though they may have to pay Unrelated Business Income Tax (UBIT). • Unlike private foundations, if appropriate policies and safeguards are in place, public charities can engage in transactions with board members, own for-profit businesses, or take reasonable risks in investments without having to pay a penalty tax. • 50 percent of donors’ adjusted gross income is deductible for cash donations to charities. For example, a donor with a yearly income of $1 million can deduct up to $500,000 as a charitable contribution to a public charity.	• Private foundations are flexible tools for accomplishing philanthropic objectives. The mission can be broad or narrow. Funds are not restricted. There is no obligation to have a public board. The founder’s wishes are generally respected. • Funding can come from a single source. • Foundations do not need to meet the public support test. • Foundations may pay salaries to employed family members. • Creating a private foundation or a trust can be a beneficial tool for estate and income tax management. It is possible to limit excessive taxes by increasing charitable giving to one’s foundation. It is possible to benefit from double deduction if one makes a charitable bequest in one’s will.

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	PUBLIC CHARITY	PRIVATE FOUNDATION
BURDENS	• Public charities must meet the public support test. Their funding-base must be varied and cannot consist of only one or very few sources. • There are sanctions against managers, board members, and other insiders who benefit personally (private inurement) from the organization or approve such a benefit. This also applies to private foundations. • Charities may not engage in any political campaign activity. Excessive lobbying prompts an excise tax. If abuses are not corrected, the charity can lose its tax-exempt status. • If a charitable organization ceases to qualify as a publicly supported entity even for a short period, it automatically becomes a private foundation.	• Self-dealing, transactions between an insider and the foundation, are strictly prohibited, even when fair and reasonable. • Private foundations must distribute 5 percent of their net investment assets annually. • There is a 2 percent excise tax on investment income. • The IRS demands additional reports from private foundations that are not required of public charities. • Deductibility of cash donations to private foundations is limited to 30 percent of the donor's adjusted gross income. • Private foundations may not control any business. • Speculative investments are prohibited. The managers of private foundations have a fiduciary responsibility to ensure that carrying out the exempt purposes of the organization is not jeopardized. An excise tax is levied if assets are put in danger. • No political or lobbying activity is allowed. • Provisions state that all expenditures must further exempt and charitable purposes.

Please note that community foundations are an exception among foundations. They can be classified as public charities because their funding usually comes from various sources and because they engage in activities that benefit the general public.

Charts created from information provided by BoardSource: https://boardsource.org/resources/irs-classification-public-charity-private-foundation/