

SOUTH FLORIDA OFFICE
3020 NE 32 AVENUE
SUITE 302
FORT LAUDERDALE, FL 33308
TELEPHONE: 954-563-8012
FACSIMILE: 954-563-8450

NORTH FLORIDA OFFICE
1301 PLANTATION ISLAND DR., S.
SUITE 302 B
ST. AUGUSTINE, FL 32080
TELEPHONE: 904.471.5040
FACSIMILE: 904.461.9312

FLORIDA KEYS OFFICE
1010 KENNEDY DRIVE
SUITE 201
KEY WEST, FL 33040
TELEPHONE: 305.296.8480
FACSIMILE: 305.293.7825

TENNESSEE OFFICE
207 MOCKINGBIRD LANE
SUITE 402
JOHNSON CITY, TN 37604
TELEPHONE: 423.378.3040
FACSIMILE: 423.378.5773

E-MAIL: clientservice@taflaw.com

Private Foundations

What is a private foundation?

A private foundation is a separate, not-for-profit entity which can be controlled by a person, a family, or a business. It is considered a charitable giving vehicle that gives you more control over your assets and how they are distributed, moving the control from the IRS, back into the donors hands.

How do they work?

A private foundation can be set up with as little as \$100,000 and no upper limit on the size of the foundation. The donor will pick an IRS approved 501(c)(3) organization, which would include most charitable, educational, religious, scientific, and literary organizations to which the foundation will donate the assets. Each year, the IRS requires the foundation to give away at least 5% of the foundations previous year's average net assets for charitable purposes.

What are the benefits to opening a private foundation?

By opening a private foundation you will have more control over the assets than with any other giving vehicle. You can also take an immediate tax deduction even if the funds that you gave to the foundations are not being immediately appropriated. Gifts to a private foundation are tax deductible up to 30% of AGI for cash, and 20% of AGI for appreciated securities with a five-year carry forward.

What are the limitations on private foundations?

While it is legal to appoint family members to the foundation, payment from the foundation's assets require strict adherence to IRS rules and regulations. The IRS has a strict no self-dealing policy. Things that fall into this category include buying or selling items to the foundation, keeping foundation assets such as paintings or jewelry on private property, or any personal use of foundations assets.

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