

Form 990-PF: Private Foundation Highlights



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Objectives

- Differentiating the columns on Page 1 of the Form 990-PF
- Identify qualifying distributions
- Determine required distributions
- Understand how to calculate net investment income
- Assess the qualifications for reduced tax on net investment income
- Discuss hard to value assets and blockage discounts, and more.

Differentiating Columns on Page 1

- 4 Different Columns
 - Revenue and expenses per books
 - Net investment income
 - Adjusted net income
 - Disbursements for charitable purposes

Part I		(a) Revenue and expenses per books	(b) Net investment income	(c) Adjusted net income	(d) Disbursements for charitable purposes (cash basis only)
Analysis of Revenue and Expenses <i>(The total of amounts in columns (b), (c), and (d) may not necessarily equal the amounts in column (a) (see instructions).)</i>					
Revenue	1 Contributions, gifts, grants, etc., received (attach schedule)				
	2 Check <input type="checkbox"/> if the foundation is not required to attach Sch. B				
	3 Interest on savings and temporary cash investments				
	4 Dividends and interest from securities				
	5a Gross rents				
	b Net rental income or (loss) _____				
	6a Net gain or (loss) from sale of assets not on line 10				
	b Gross sales price for all assets on line 6a _____				
	7 Capital gain net income (from Part IV, line 2)				
8 Net short-term capital gain					
9 Income modifications					



Column (a) : Revenues & Expenses per Books

- All items of revenue and expense shown in the books and records that increase or decrease net assets
- Should not included the value of donated services or use of facilities

Column (b) : Net Investment Income

- This is the amount that includes the gross investment income and capital gain net income.
- This includes all of the following:
 - Interest
 - Dividends
 - Capital Gains
 - Any income or expenses reported on Schedule K-1 from investment in pass-through entities.
 - Rents
 - Royalties

Column (c) : Adjusted Net Income

- Typically only used by Private Operating Foundations
- Income should include the following:
 - Income from charitable functions, investments, unrelated and related businesses
 - Short-term capital gains and losses
 - Recoveries of amounts that were treated as qualifying distributions in prior taxable years
- Deductible Expenses include any operating expenses incurred to produce the gross income listed above.
- Expenses incurred by each charitable activity are limited to the income from that activity.



Column (d) : Disbursements for Charitable Purposes

- Must use the cash method of accounting for this column
- Do not include any amount reported in the net investment column (b) or the adjustment income column (c)
- Should include all qualifying distributions

Qualifying Distributions

- Important for several reasons
 - Counts towards a nonoperating private foundation's obligation to pay out its distributable amount
 - Determines if nonoperating private foundation qualifies for a reduce rate of tax on their net investment income
 - Private operating foundations must also calculate their qualified distributions each year to make sure they meet their other distribution requirements

Qualifying Distributions

- Defined as the following:
 - Amounts paid to accomplish one or more charitable, religious, educational, or other similar purposes.
 - Amounts paid to acquire or operate program related investments
 - Certain amounts set aside for specific charitable projects
 - Amounts paid to acquire assets used or held for use directly in carrying out the organization’s charitable purpose.

Part XII Qualifying Distributions (see instructions)	
1	Amounts paid (including administrative expenses) to accomplish charitable, etc., purposes:
a	Expenses, contributions, gifts, etc.—total from Part I, column (d), line 26
b	Program-related investments—total from Part IX-B
2	Amounts paid to acquire assets used (or held for use) directly in carrying out charitable, etc., purposes
3	Amounts set aside for specific charitable projects that satisfy the:
a	Suitability test (prior IRS approval required)
b	Cash distribution test (attach the required schedule)
4	Qualifying distributions. Add lines 1a through 3b. Enter here and on Part V, line 8, and Part XIII, line 4
5	Foundations that qualify under section 4940(e) for the reduced rate of tax on net investment income. Enter 1% of Part I, line 27b (see instructions)
6	Adjusted qualifying distributions. Subtract line 5 from line 4

Note. The amount on line 6 will be used in Part V, column (b), in subsequent years when calculating whether the foundation qualifies for the section 4940(e) reduction of tax in those years.



Foundations Exempt from Net Investment Income Excise Tax

- Exempt operating foundations are not subject to the net investment income tax if they meet all the following requirements:
 - Must be a private operating foundation
 - Must be publicly supported for at least 10 years
 - Its governing body must be broadly representative of the general public
 - It may at no time during the year have an officer who is a disqualified individual

Reduced Tax on Net Investment Income

Part V Qualification Under Section 4940(e) for Reduced Tax on Net Investment Income

(For optional use by domestic private foundations subject to the section 4940(a) tax on net investment income.)

If section 4940(d)(2) applies, leave this part blank.

Was the foundation liable for the section 4942 tax on the distributable amount of any year in the base period? Yes No
 If "Yes," the foundation does not qualify under section 4940(e). Do not complete this part.

1 Enter the appropriate amount in each column for each year; see the instructions before making any entries.

(a) Base period years Calendar year (or tax year beginning in)	(b) Adjusted qualifying distributions	(c) Net value of noncharitable-use assets	(d) Distribution ratio (col. (b) divided by col. (c))
2013			
2012			
2011			
2010			
2009			

2	Total of line 1, column (d)	2
3	Average distribution ratio for the 5-year base period—divide the total on line 2 by 5, or by the number of years the foundation has been in existence if less than 5 years	3
4	Enter the net value of noncharitable-use assets for 2014 from Part X, line 5	4
5	Multiply line 4 by line 3	5
6	Enter 1% of net investment income (1% of Part I, line 27b)	6
7	Add lines 5 and 6	7
8	Enter qualifying distributions from Part XII, line 4 If line 8 is equal to or greater than line 7, check the box in Part VI, line 1b, and complete that part using a 1% tax rate. See the Part VI instructions.	8



Reduced Tax on Net Investment Income

- To qualify for lower rate must meet the following requirements:
 - The amount of qualifying distributions made by the private foundation during such taxable year equals or exceeds the sum of:
 - The assets of such foundation for such a taxable year multiplied by the average percentage payout for the base period.
 - 1% of the net investment income of such foundation for such taxable year
 - The foundation was not liable for tax for failure to distribute income for any year in the base period.

Investments that Jeopardize Charitable Purpose

- IRS imposed tax on investments that jeopardize a private foundation's charitable purpose
- This is determined when investment is made
 - Once determined the investment stays classified as jeopardizing or not
- Considered to be an jeopardizing to the charitable purposed if
 - Management failed to exercise ordinary business care & prudence in providing for the long-term and short-term financial needs to carry out the foundation's exempt purpose.

- 4a Did the foundation invest during the year any amount in a manner that would jeopardize its charitable purposes?
- b Did the foundation make any investment in a prior year (but after December 31, 1969) that could jeopardize its charitable purpose that had not been removed from jeopardy before the first day of the tax year beginning in 2014?

4a		
4b		

Program Related Investments

- Possess all of the following characteristics
 - Primary purpose is to accomplish charitable, educational, or other similar purpose
 - Production of income or capital is not a significant purpose of the investment
 - Is not made to influence legislation or campaign on behalf of a candidate for public office

Part IX-B Summary of Program-Related Investments (see instructions)	
Describe the two largest program-related investments made by the foundation during the tax year on lines 1 and 2.	Amount
1 _____ _____	
2 _____ _____	
All other program-related investments. See instructions.	
3 _____ _____	
Total. Add lines 1 through 3	

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Blockage Discounts

- A Foundation may reduce the value of a block of securities it owns from FMV if it establishes that the securities could not be sold in a reasonable amount of time except at a price less than FMV, based on the three following reasons:
 - The size of the block is so large in relation to the actual sales on the existing market that it could not be liquidated in a reasonable amount of time without depressing the market
 - The securities are in a closely held corporation, and sales are few or of sporadic nature
 - The sale would result in a forced or distressed sale because the securities cannot be sold to the public without being registered under the Securities Act of 1933 or because of other factors

Blockage Discounts

- Used in calculating minimum return on investments
- The total reduction claimed cannot exceed 10% of the investment's FMV

Part X		Minimum Investment Return (All domestic foundations must complete this part. Foreign foundations, see instructions.)	
1	Fair market value of assets not used (or held for use) directly in carrying out charitable, etc., purposes:		
a	Average monthly fair market value of securities	1a	
b	Average of monthly cash balances	1b	
c	Fair market value of all other assets (see instructions)	1c	
d	Total (add lines 1a, b, and c)	1d	
e	Reduction claimed for blockage or other factors reported on lines 1a and 1c (attach detailed explanation)	1e	
2	Acquisition indebtedness applicable to line 1 assets	2	
3	Subtract line 2 from line 1d	3	
4	Cash deemed held for charitable activities. Enter 1 1/2 % of line 3 (for greater amount, see instructions)	4	
5	Net value of noncharitable-use assets. Subtract line 4 from line 3. Enter here and on Part V, line 4	5	
6	Minimum investment return. Enter 5% of line 5	6	



Estimated Tax Payments

- Required to be paid by all organizations whose estimated tax is more than \$500 for the current year
- Organization whose net investment income is less than \$1 Million are able to pay “safe-harbor” estimates
 - Under “safe harbor” estimates should be equal to 100% of prior year excise tax due
- “Large Corporations” are not allowed to pay “safe harbor” estimates and must pay estimates based on current year net investment income

Questions?

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