

What is a Private Foundation?

- A non-governmental, nonprofit 501(c)(3) organization that gives money.
- Usually funded by a single individual, family or corporation.
- Typically managed by a board of trustees that makes grant decisions.
- Required to pay out at least 5% of the value of its assets every year.
- Exempt from federal income tax.

A private foundation is mostly a grantmaking organization. Typically a donor (which might be an individual, family or corporation) establishes a private foundation to give money (and sometimes other resources) to nonprofits engaged in charitable activities. The donor or donors that give to a private foundation tend to have a large degree of control over how the money is spent.

Like the Ford Foundation, right?

The term “private foundation” actually applies to many kinds of organizations.

There are the large legacy institutions like the Ford and Rockefeller foundations—generations-old organizations with endowments in the billions, large staffs and highly professionalized grantmaking operations. These are also known as “independent foundations,” as they are not governed by an individual benefactor or the benefactor’s family. There are also smaller, independent foundations that may have a very low public profile, a minimal staff, or no staff at all.

Some more recently established private foundations are essentially giving vehicles for a living donor or couple. This includes multi-billion-dollar foundations like the Bill and Melinda Gates Foundation or Bloomberg Philanthropies, as well as much smaller entities with a living donor or couple intent on giving while living. Closely related are family foundations, where the original donor is no longer living or involved in charitable work, but their children or other family members are, as is the case with the Conrad N. Hilton Foundation, Surdna Foundation, and many others.



There are also private corporate foundations set up by corporations as a way to give back, often in issue areas related to their business.

And there is a growing number of artist-endowed private foundations funded by the sizable estates of individual artists—for instance, the Louise Bourgeois, Mike Kelley, and Joan Mitchell foundations—which are becoming important in the field of arts philanthropy.

Private foundations can give to 501(c)(3) nonprofits working on pretty much any issue, anywhere.

So what makes a private foundation a private foundation? And how does it work?

Private foundations do not solicit funds from the public. A person, family or corporation starts a foundation by making a tax-deductible contribution, which becomes the foundation's endowment—basically, the pot of money. They can keep making tax-deductible contributions to the foundation as long as they like (subject to some IRS limits based on a percentage of income).

The donor or donors can then establish the foundation's mission, choose a board of trustees, determine how the endowment will be invested, and decide how funds will be given away. While there are some restrictions on these choices, the donor or donors have a lot of decision-making power. (That is, if they want it. Some donors set up foundations with the clear intention of shaping the foundation's mission, board, giving, and impact, and some choose a more hands-off approach. Some of the more progressive among them choose to put decision-making power into others' hands, for example, the hands of people directly impacted by the issues the foundation aims to address. But these remain in the minority.)

A private foundation has to pay out at least 5% of the fair market value of its assets every year. This 5% includes both grants and the foundation's operating expenses. Some foundations choose to give out more than 5%, but at least 5% is required. A private foundation can be set up to exist in perpetuity, or to spend all its money by a certain date.



Most private foundations are managed by a board of trustees, which makes final grant decisions. Many private foundations—especially the larger ones—are staffed by philanthropic professionals and people with expertise in the sector/s the foundation aims to support. These staff members handle foundation operations and make grant recommendations to the board.

Private foundations are exempt from federal income tax, though they are subject to small (1-2%) excise taxes on investment income. Private foundations are required to disclose all grantees and grant amounts in a yearly 990-PF form. Since most foundations don't have websites, those forms are often the only way to learn what these institutions are doing.

The Fine Print

There is no legal definition of a “foundation,” but there are some relevant U.S. tax classifications. All 501(c)(3)s are considered “private foundations” by the IRS unless they qualify as public charities by proving that at least one-third of contributions to the foundation are given by donors who give less than 2% of the organization's overall funding. So a private foundation is one with a single or a few funders, and where control of the foundation is also held among a few, while a public charity is funded by many funders.

Also: There's an entity called a private operating foundation, which engages in charitable programs or direct services itself. This text is about non-operating private foundations, whose primary activity is grantmaking.

You may also want to check out:

- [What is a Community Foundation?](#)
- [What is a Corporate Foundation?](#)
- [What is an Endowment?](#)
- [How do Foundations Make Grant Decisions?](#)

