

Consider the private operating foundation

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Philanthropically minded donors often consider creating and funding a charitable organization that will make charitable grants with the objective of establishing a lasting legacy. Such donors quickly learn that in the United States, charitable organizations are divided into two categories—private foundations and public charities—and that qualifying as a public charity (1) is more difficult, and (2) generally brings more generous limits on tax deductibility of contributions and more liberal restrictions on operations.

Private grant-making foundations are saddled with restrictions not applicable to public charities, but qualifying as a publicly supported charity under Internal Revenue Code Sections 509(a)(1) and (a)(2) requires a commitment to fundraising that may be unacceptable to many donors. The 5 percent minimum distribution requirement applicable to private grant-making foundations may be too steep for some foundations with an asset base that's short on cashflow. As a result, many philanthropically minded donors are choosing to fund donor-advised funds (DAFs) sponsored by public charities as the vehicle for their grant-making programs. Some see the lack of responsibility for the charity's operations as a welcome trade for the loss of control, as compared to forming a foundation. But, other donors would prefer to form their own foundation and exercise greater control and involvement of their families in their philanthropic vision. Those donors should consider a private operating foundation (POF).

The POF “threads the needle” through many of the most attractive attributes of public charities and private grant-making foundations.


[Click here](#) for the full article, as originally published in *Trusts & Estates Magazine's Charitable Giving Special Edition* – October 2017.

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