

TWO TYPES OF 501(C)(3) ORGANIZATIONS: PUBLIC CHARITY vs PRIVATE FOUNDATION.

In granting 501(c)(3) status the IRS will classify the organization as being either a "public charity" or "private foundation". A private foundation is a 501(c)(3) entity that does not qualify as a public charity. The choice is made by the IRS and not the organization. The classification is based on the sources of the organization's support.

- PUBLIC CHARITY (technically: "Publicly Supported Organization") is a 501(c)(3) organization that meets the 1/3 public support test, that is, it receives at least one third of its support from "public" sources such as small contributions, government grants, or from other public charities AND it does not receive too much income from investments. If an organization qualifies it will not be subject to the restrictions applicable to private foundations. For example, The Ford Foundation is a "private foundation" because it does not get any support from the general public or the government and it is not affiliated with or controlled by another organization which itself gets public support. In contrast, your local United Way is a "public charity" because it receives broad public support. Also, an organization that depends on government grants will likely be classified by the IRS as a "public charity" because government grants are considered a public support.
 - ADVANTAGES OF BEING A "PUBLIC CHARITY":
 - Private foundations have more restrictions on their activities
 - The rules governing the deductibility of contributions are more favorable.
 - For public charities there is no tax on its investment income [if it has any], while a private foundation must pay a 2% tax
 - The IRS considers certain organizations to be public charities simply by the nature of their activities (schools, hospitals, religious organizations, etc.) or because the organization is affiliated with or controlled by another public charity.
 - For most 501(c)(3) organizations, however, the IRS presumes that it will be a private foundation UNLESS that organization can overcome the presumption by demonstrating that a sufficient amount of its financial support comes from "public sources" [small contributions from the general public, grants from

governmental agencies, and grants from other public charities].

- PRIVATE FOUNDATION STATUS: A "private foundation" is any 501(c)(3) organization that has failed to demonstrate that it is a "publicly charity". [CLICK HERE](#) to go to an information page on the IRS website
 - **Disadvantages**
 - can only give money to a public charity
 - excise tax on investment income not given away as grants in a timely manner"
 - generally, gifts to a private foundation are not tax deductible
 - a private foundation cannot receive grants from another private foundation.
- **PRIVATE OPERATING FOUNDATION** - A "private operating foundation" is a type of private foundation that might be an attractive option for an organization that can't qualify as a "public charity" yet wants to avoid some of the disadvantages of being a normal private foundation. Private operating foundations are less rigorously regulated by the IRS than other types of private foundations and, like public charities, they can offer their donors the possibility of getting a tax deduction for donations. Somewhat like a public charity they can qualify for certain types of grants from other private foundations. What distinguishes "private operating foundations"" from other types of private foundations is that they must devote most of their resources to the active conduct of its exempt activities (rather than simply making grants out of their investment income).[CLICK HERE](#) to get more information from the IRS website.