



ARE THERE ANY TAXES PAYABLE BY A FOUNDATION?

Yes. A foundation's annual net investment income (such as, interest, dividends and capital gains) is subject to a 2% excise tax that is, in effect, a tax on the foundation's income. Each year (other than its initial tax year) in which a foundation's charitable distributions equal or exceed its average historic giving ratio plus 1% of its net investment income for the year, this 2% tax on income is reduced to 1%.

If a foundation has unrelated business taxable income, it must pay tax on that income at regular trust or corporate income tax rates. Unrelated business taxable income is income from the conduct of an active trade or business that is not directly and substantially related to carrying out the foundation's charitable purposes (other than by producing revenue for the foundation). A foundation can have unrelated business taxable income if it holds an interest in a partnership or limited liability company that conducts or owns an interest in other pass-through entities that conduct an active trade or business. If a foundation owns stock in an S corporation, all of its share of the S corporation's income and gains, and any gain the foundation recognizes when it disposes of the S corporation stock, will be subject to unrelated business income tax. A foundation's debt-financed income also is subject to unrelated business income tax. The tax applies to the debt-financed portion of the foundation's income and gains from holding or disposing of the debt-financed property, whether the foundation holds property directly (e.g., a margined securities account or mortgaged real property) or indirectly (through a partnership or limited liability company in which the foundation holds an interest).

Other very significant excise (penalty) taxes may be assessed if a foundation fails to make certain required distributions or engages in certain prohibited transactions.