



What Makes Foundations Different?

How are foundations different from other types of nonprofit organizations?

Q:

Functionally, what is the difference between a foundation and a 501(c)(3) nonprofit organization? I know that foundations pay modest tax. Is there a difference on the deductibility of donations to the organization? Beyond the tax (and what is it?), are there differences in what they can do?

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A:

The functional difference between a foundation and a 501(c)(3) nonprofit organization is that foundations distribute funds in the form of grants to health, welfare, social, educational, and economic organizations which are charitable organizations. The nonprofit organizations generally provide direct service to people in need.

The deductibility of a gift is contingent and related to the organization's charitable status. If it's a 501(c)(3) nonprofit organization, including a community or supporting foundation (such as a university), then the gift is usually deductible. Questions about the type of gift and the status of its deductibility can be provided by most of these organizations. Nonprofit organizations such as a chamber of commerce or board of realtors fall under other sections of the tax code. Gifts to those organizations are not deductible, even though they are also nonprofit organizations.

It's only on occasion that *private* foundations pay any tax, and that's only when they fail to meet their federal payout requirements.

Foundations are generally created as a vehicle for giving, and in the case of supporting foundations, for fundraising. Nonprofit organizations are far more diverse in purpose and created for many needs and reasons.

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Note: For a description of the types of private and public foundations, see "Foundation Types and Criteria" in the September–October 1993 issue.

—Ed. ■

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