**Position Statement**

*Simplification of the Excise Tax on Private Foundations*
*Adopted September 2013*

**Position**

The Southeastern Council of Foundations supports the simplification of the excise tax on private foundations through either elimination of the private foundation excise tax on investment earnings, or replacement of the two-tiered tax with a single rate/flat tax.

**Current Law**

Private foundations that are exempt from federal income tax generally are subject to a 2 percent excise tax on their net investment income. However, the tax is reduced to 1 percent in any year in which the foundation’s percentage of distributions for charitable purposes exceeds the average percentage of its distributions over the five preceding taxable years.

Under current law, private non-operating foundations generally are required to make annual distributions for charitable purposes equal to at least five percent of the fair market value of the foundation’s non-charitable use assets (with certain adjustments). The amount that a foundation is required to distribute annually for charitable purposes is reduced by the amount of the excise tax paid.

**Rationale**

- The current two-tiered system could deter giving when it’s most needed. As it now stands, when a foundation increases annual giving relative to its assets, its five-year average payout rate goes up. That’s just math. Then if the economy hits a rough patch and markets decline, a foundation perversely can find itself facing a higher tax bill unless it cuts back on giving.

- Simplifying the rate will reduce monitoring and enforcement costs to the Treasury Department, increasing efficiency for foundations and government alike.

- A flat excise tax will simplify tax planning, especially for smaller foundations that may lack resources for complex financial planning.

- The excise tax normally raises approximately $300-400 million a year. Because the tax paid reduces the amount a foundation must distribute for charitable purposes, eliminating the tax will result in an additional almost $300-400 million available for charitable purposes per year – about 90 percent of which typically go to grants, according to Internal Revenue Service estimates.