

Key Points for Foundation Taxes March 2007

FOR DISCUSSION PURPOSES ONLY. This is an oversimplified explanation of Alpha Phi's current tax status and potential tax changes if it were to qualify as a Public Charity. This is NOT legal and/or tax advice, nor does it present information prepared or reviewed by a qualified CPA, tax attorney or other tax expert.

Last year, the Alpha Phi Foundation was granted a 501(c)(3) Private Foundation tax exempt status. The IRS examiner likely determined that Alpha Phi Foundation is a Private Foundation because substantially all contributions were received directly from the Alpha Phi chapter and there was not a material amount of "public support" from the general public. Public support is basically getting at least 1/3 of total income from the general public (not just from investment income and one or two entities). As explained below, achieving a Public Charity status is likely beneficial to our efforts.

Below is a brief summary of the tax considerations of a Private Foundation and a Public Charity:

Private Foundation

As a Private Foundation, the Alpha Phi Foundation is qualified to receive tax deductible contributions from the general public and contributions from other charitable organizations.

However, as a Private Foundation, the Foundation is obligated to:

- Support charitable endeavors as defined in the Articles and Bylaws
- Pay a 15% excise tax on an "assumed investment income" ("AII") unless the AII is distributed each year for charitable purposes
 - o AII equals 5% of the average monthly assets of the Foundation
 - o Excise tax applies to cumulative undistributed income for the tax years prior to the current tax year, so it keeps growing unless the AII is distributed
 - o Excise taxes equaled \$4,128 for the tax-year ending on June 30, 2006 and will continue to grow if the Foundation remains a Private Foundation and does not distribute all of its AII

Public Charity

If the Foundation qualifies as a Public Charity, it is not obligated to pay excise taxes on undistributed income; it must continue to support charitable endeavors as defined in its Articles and Bylaws.

To qualify as a Public Charity

- At least 33.3% of the Foundation's total income (including investment income) must come from the general public, governmental units and other charities (together "public support")
 - o Any single person's or Private Foundation's contribution is capped at 2% of total income when calculating "public support"
 - o The general public is broadly defined and may possibly include corporations unaffiliated with the Foundation, alumni and others
 - o For the tax year ending June 30, 2006, the Foundation would have needed a minimum of 17 contributors each contributing \$197.63 each to qualify as a Public Charity