Technical Appendix

The Math Behind the Tax: How Proposed Private Foundation Tax Increases Could Reshape Grants to Nonprofits

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Using publicly available IRS Form 990-PF filings, we modeled the potential impact of this proposed change on three model private foundations under the three new rates: 2.78%, 5%, and 10%. To create the model private foundations:

- We used the IRS Business Master File to randomly select 10 foundations with assets between $50 million and $250 million, seven foundations with assets between $250 million and $5 billion, and four foundations with assets over $5 billion. Since there are many more foundations with assets in the range of $50 million compared to those with assets in the range of $5 billion, we reduced the random selection as the size of each asset group increased. With those foundations identified, we used ProPublica's Nonprofit Explorer to download the Form 990-PF data for 2023 for each foundation.
- For each proposed tax band, we calculated:
    - Total assets, dollars (group average)
    - Endowment, dollars (group average)
    - Net interest income, dollars (group average)
    - Tax on net interest income, dollars
    - Gross minimum required distribution, dollars (5% of the endowment)
    - Net minimum required distribution, dollars (5% of the endowment minus approved adjustments—primarily the tax paid on net interest income)
    - Actual distribution, dollars (group average)
    - Actual distribution payout rate (actual distribution dollars divided by the endowment)
- Next, we applied the appropriate new tax rate to the group average and calculated the new NII tax, resulting net minimum required distribution, and projected future distribution using the group's average actual distribution payout rate
- Finally, we compared the new net minimum required distribution to the group average projected distribution, in dollars

The resulting analysis is shown in the tables below.

$50 million to $250 million: 1.39% vs. proposed 2.78%

Let's start with what this group of 10 foundations filed in 2023, shown below in Table 1. Red text denotes the group average from actual IRS filings; black text denotes calculations by the Johnson Center.

Table 1: 2023 Filings (group average)

Row number	Metric	Group average, 2023
1	Total assets, fair market value, end of year	$108,474,823
2	Endowment corpus	$100,487,566
3	*Calculate corpus as a share of total assets*	*93%*
4	Net investment income (NII)	$9,298,716
Current Policy		
5	Tax rate on NII	1.39%
6	Tax on NII	$129,252
7	Gross minimum required distribution, dollars (5% of corpus)	$5,024,378
8	Net minimum required distribution after subtraction of the tax on NII	$4,895,126
9	Actual distribution, dollars	$14,594,515
10	Calculated actual payout compared to the required payout	2.9814x
11	Calculated actual payout rate	14.5%

In plain language, the average total assets of this group of foundations was $108 million (row 1). The actual endowment balance (remember, "total assets" includes things like buildings and laptops, while the value of the endowment itself excludes those assets) was $100.4 million (row 2), or 93% of total assets (row 3). The reported NII averaged $9.3 million (row 4), which, at a 1.39% tax rate (row 5), equates to a tax of approximately $130,000 (row 6).

Private foundations are required to distribute at least 5% of their endowments to charity in the initial calculation, or just over $5 million (row 7). That figure is revised downward to $4.9 million (row 8) because the amount of tax in row 6 is subtracted from it per IRS rules. In reality, these foundations actually distributed $14.5 million on average (row 9), or nearly three times more than required (row 10), resulting in an actual payout rate of 14.5% (row 11).

Now, let's add the proposed tax to that table and compare the results. Table 2 adds rows 12-16 to the contents of Table 1:

Table 2: Proposed New Tax Rates

Row number	Metric	Group average, 2023
Proposed		
12	New tax rate on NII	2.78%
13	Calculated tax on NII	$258,504
14	Revised adjusted minimum distribution, after subtraction of the tax on NII	$4,765,874
15	Change in minimum distribution from current policy (dollars)	-$129,252
16	Change in minimum distribution from current policy (percent)	-2.6%

With the proposed tax in place:

- The tax paid increases to $258,504 (row 13), because the rate doubled from 1.39% (row 5) to 2.78% (row 12).
- The net required distribution to nonprofits fell by $129,252 (row 15), or the same amount as the tax increase between rows 5 and 12. This $129,252 decrease in required distributions to nonprofits represents a 2.6% decrease from the amount required in 2023 (row 16).

Now we have the first explanation of why the increased tax results in fewer dollars to charitable nonprofits: every dollar paid in tax decreases the required distribution to nonprofits by the same amount.

Finally, notice in rows 10 and 11 that this model foundation actually paid out 3 times more than the required amount (row 10) for an effective actual payout rate of nearly 15% (row 11). Over time, if this model foundation stops paying out 15% and drops to the minimum 5% required payout, Table 3 shows this results in a decrease of $9.8 million (row 17, which is the difference between rows 9 and 14) or 67.3% (row 18).

Table 3: Forecast of Reversion to 5% Minimum Payout

Row number	Metric	Group average, 2023
Forecast		
17	Total decrease if actual distribution is reduced to required minimum distribution (dollars)	-$9,828,641
18	Total decrease if actual distribution is reduced to required minimum distribution (percent)	-67.3%

$250 million to $5 billion: 1.39% vs. proposed 5%

We then ran the same series of calculations on the next tier of foundations, where the tax increases from 1.39% to 5%. The results show that foundations in the 5% tax group would decrease distributions to charity by $2.9 million (row 15), or 4.5% (row 16), compared to the current policy's required minimum distribution. In reality, this model foundation pays out 25% more than its required minimum distribution (row 10), for an actual payout rate of 6.2% (row 11). If this model foundation over time drops from its actual payout rate to the new required minimum, distributions to nonprofits would fall by $20.1 million (row 17) or 24.6% (row 18).

Table 4: Full Results, 5% Tax Rate Group

Row number	Metric	Group average, 2023
1	Total assets, fair market value, end of year	$1,376,048,288
2	Endowment corpus	$1,317,754,670
3	*Calculate corpus as a share of total assets*	96%
4	Net investment income (NII)	$80,580,238
Current Policy		
5	Tax rate on NII	1.39%
6	Tax on NII	$1,120,065
7	Gross minimum required distribution, dollars (5% of corpus)	$65,887,734
8	Net minimum required distribution after subtraction of the tax on NII	$64,767,668

9	Actual distribution, dollars	$81,997,110
10	Calculated actual payout compared to the required payout	1.2660
11	Calculated actual payout rate	6.2%
Proposed		
12	New tax rate on NII	5.00%
13	Calculated tax on NII	$4,029,012
14	Revised adjusted minimum distribution, after subtraction of the tax on NII	$61,858,722
15	Change in minimum distribution from current policy (dollars)	-$2,908,947
16	Change in minimum distribution from current policy (percent)	-4.5%
Forecast		
17	Total decrease if actual distribution is reduced to required minimum distribution (dollars)	-$20,138,388
18	Total decrease if actual distribution is reduced to required minimum distribution (percent)	-24.6%

Over $5 billion: 1.39% vs. proposed 10%

Finally, we calculated the results for the largest private foundations, where the NII tax rate increases from 1.39% to 10%.

Table 5 shows that the foundations in the 10% tax group would decrease distributions to charity by $80.5 million (row 15), or 14.8% (row 16), compared to the current policy's required minimum distribution. In reality, this model foundation pays out 25% more than its required minimum distribution (row 10), for an actual payout rate of 6.1% (row 11). If this model foundation over time drops from its actual payout rate to the new required minimum, distributions to nonprofits would fall by $215 million (row 17) or 31.7% (row 18).

Table 5: Full Results, 10% Tax Rate Group

Row number	Metric	Group average, 2023
1	Total assets, fair market value, end of year	$11,814,857,023
2	Endowment corpus	$11,158,035,609
3	*Calculate corpus as a share of total assets*	94%
4	Net investment income (NII)	$935,435,061
Current Policy		
5	Tax rate on NII	1.39%
6	Tax on NII	$13,002,547
7	Gross minimum required distribution, dollars (5% of corpus)	$557,901,780
8	Net minimum required distribution after subtraction of the tax on NII	$544,899,233
9	Actual distribution, dollars	$679,757,115
10	Calculated actual payout compared to the required payout	1.2475
11	Calculated actual payout rate	6.1%
Proposed		
12	New tax rate on NII	10.00%
13	Calculated tax on NII	$93,543,506
14	Revised adjusted minimum distribution, after subtraction of the tax on NII	$464,358,274
15	Change in minimum distribution from current policy (dollars)	-$80,540,959
16	Change in minimum distribution from current policy (percent)	-14.8%

Forecast		
17	Total decrease if actual distribution is reduced to required minimum distribution (dollars)	-$215,398,840
18	Total decrease if actual distribution is reduced to required minimum distribution (percent)	-31.7%

Important Caveats

- Because of the effort required to identify actual NII, endowment balances, and actual distributions, we used a small selection of private foundations for this exploratory analysis. While the foundations were randomly selected from the IRS Business Master File, they do not necessarily accurately represent all foundations in each group. In other words, this is a random selection, but not a statistically significant (and therefore projectable) random selection.

- Individual private foundations may have materially different ratios between their assets and their endowment balances. For example, the author is aware of at least one private foundation whose primary asset is art that is loaned to several public museums. Therefore, this private foundation's endowment represents less than half of the foundation's total assets—a very different picture than the 90% endowment-to-asset share of each of these three model foundations. For this private foundation, the new tax proposal represents a significant change: rates are based on total assets, not the endowment balance. Therefore, this foundation will be taxed at a much higher rate relative to its endowment compared to peer private foundations with similarly sized endowments.

- In our simple analysis, we did not move the clock backwards to see how many foundations over the period 2014-2023 would be paying different tax rates at the end versus the beginning of the period had the tax taken effect in 2014. Similarly, we did not project forward from 2024 to 2033 to estimate how many foundations will be paying higher taxes at the end of the period versus the beginning. This is an area that lends itself to potential future research.

- For simplicity, we also did not identify private foundations with related organizations to "roll up" the enterprise assets per the proposed new tax regulations. This is another area for potential future research.

For the full write-up of this analysis, see https://johnsoncenter.org/blog/how-proposed-private-foundation-tax-increases-could-reshape-grants-to-nonprofits/