PAIR AI LLC

Private Foundation Formation and Compliance Guide

A practical federal framework for domestic grantmaking private foundations, developed for use with separately engaged legal and tax professionals.

Professional reference guide
Public educational edition

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PROFESSIONAL USE AND LEGAL NOTICE

Private Foundation Formation and Compliance Guide

A federal framework for entity selection, exemption, governing-instrument design, funding, Chapter 42 controls, grantmaking, public disclosure, and continuing administration.

> **IMPORTANT**
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> This guide is not a legal opinion, does not create an attorney-client relationship, and is not an executable form set. Pair Ai LLC is a legal technology and document-architecture company, not a law firm. State law, current federal forms, proposed assets, governance, transactions, and actual operations require review by separately engaged licensed counsel and tax professionals.

This public edition is adapted from attorney-directed research and drafting originally developed by Pair Ai LLC. Client-specific material, privileged work product, internal law-firm directions, signature blocks, and stand-alone model documents have been removed or reframed for educational use.

How to use this guide

Use the guide to organize questions and professional responsibilities before a private foundation is formed or funded. The core principle is that formation, exemption, classification, governance, funding, grantmaking, investment, reporting, and recurring administration must function as one system.

FRAME

Define the objective

Clarify mission, activities, donors, assets, governance, privacy expectations, and the desired role of family members.

BUILD

Coordinate the file

Align the state-law entity, governing instrument, exemption application, policies, accounts, and implementation evidence.

OPERATE

Administer before acting

Install preclearance, grant, investment, distribution, filing, public-disclosure, and recordkeeping controls.

NAVIGATION

Contents

01 - EXECUTIVE FRAMEWORK

Start with the legal stack, not the label.

TERMINOLOGY CONTROL

There is no separate state-law entity called a "Section 508 foundation." A private foundation is created under state law, seeks recognition under Section 501(c)(3), is classified under Section 509, and must satisfy the applicable Section 508 notice and governing-instrument rules.

The same word - foundation - may describe a family philanthropic program, a public-facing name, a state-law entity, or a federal tax classification. Those concepts must be separated and documented.

Layer	Function	Proof in the professional file
State-law entity	Nonprofit or nonstock corporation, unincorporated nonprofit association, charitable trust, or another eligible form selected after jurisdiction-specific review.	Filed charter or articles, executed association organizing instrument, or executed trust instrument.
IRC Section 501(c)(3)	Organizational and operational requirements for exempt purposes, private inurement and benefit, lobbying, political activity, and dissolution.	IRS determination letter after Form 1023 or eligible Form 1023-EZ, subject to applicable exceptions.
IRC Section 509	A Section 501(c)(3) organization is generally a private foundation unless it establishes a public-charity exception.	Classification reflected in the determination letter and annual reporting.
IRC Section 508	Notice/application rules, private-foundation presumption, and governing-instrument requirements.	Timely application or applicable exception, plus compliant governing provisions.

The central operating principle

A signed instrument is not a complete foundation. The organization needs legally effective formation, a coherent governing document, truthful exemption submissions, separate accounts, approved fiduciaries, asset acceptance review, grant and investment procedures, public-disclosure readiness, and a recurring compliance calendar.

> The engagement should not close when the entity is formed or when the exemption application is submitted. The client needs a permanent record and an operating system that continues after the determination letter arrives.

02 - SUITABILITY AND ENTITY FORM

A private foundation should be selected deliberately.

A private foundation can support long-term family philanthropy, branded grantmaking, direct charitable programs, and disciplined succession. It also carries annual filings, public disclosure, payout calculations, and strict related-party rules.

POTENTIAL FIT

When the structure may be appropriate

- Meaningful or recurring philanthropic funding.
- A continuing governing body and family participation.
- Branded grantmaking or direct programs.
- Long-term stewardship and succession.
- Willingness to maintain professional administration.

ALTERNATIVE SCREEN

When another vehicle may be better

- Simplicity or donor privacy is the priority.
- Giving is modest, episodic, or primarily to established public charities.
- The donor does not need a separate governing body.
- The client does not want Form 990-PF, excise-tax, and distribution administration.
- A donor-advised fund or direct giving better fits the objective.

Entity-form comparison

Form	Potential advantages	Principal review points
Nonprofit corporation	Familiar proof of existence, board governance, banking, title, and institutional diligence.	State filing, periodic reports, statutory corporate formalities, and state-specific member/director rules.
Unincorporated nonprofit association	Contractual flexibility and, in some jurisdictions, a reduced formation-filing footprint.	Formation evidence, minimum membership, continuity, liability, property authority, and counterparty acceptance can require bespoke analysis.
Charitable trust	Durable fiduciary form, mission restriction, and continuity through trustee succession.	Trust law, charitable enforcement, amendment/reformation, trustee powers, situs, court supervision, and tax classification require specialized drafting.

SELECTION STANDARD

Choose the entity after reviewing governance, proof of existence, liability, title, real property, financing, banking, state reporting, attorney-general oversight, conversion and dissolution mechanics, and the organization’s actual activities. Do not use an LLC without specialized federal and state analysis.

Mandatory pre-formation advisories

- Form 1023 and Form 990-PF are generally public, and private-foundation contributor identities and financial information may be disclosed.
- Foundation assets are irrevocably dedicated to charitable purposes and cannot function as a family investment account or reimbursement pool.
- Family participation and reasonable compensation may be possible, but payments and benefits involving disqualified persons require advance analysis.
- Noncash and restricted assets can create valuation, deduction, UBIT, debt-financed income, excess business holdings, self-dealing, liquidity, and disposition issues.

03 - FORMATION AND EXEMPTION WORKFLOW

Sequence the work before money or property moves.

01 **Define the mission and activities.** Prepare specific operational descriptions identifying what the organization will do, who will conduct it, who benefits, where it operates, how participants or grantees are selected, and the expected budget.

02 **Select the jurisdiction and entity form.** Compare corporate, association, and trust governance; filing and existence evidence; fiduciary law; liability; title; amendments; conversion; and state tax.

03 **Clear the legal and public name.** Confirm exact-name consistency across the governing instrument, EIN, exemption filing, bank accounts, contracts, and state records.

04 **Draft and file or execute the organizing instrument.** Include Section 501(c)(3) purpose and dissolution provisions and the Section 508(e) private-foundation restrictions in the applicable organizing instrument.

05 **Complete organizational action.** Adopt governance rules and policies, appoint fiduciaries and officers, fix the tax year, authorize accounts, and assign professional responsibilities.

06 **Obtain the EIN.** Apply only after legal formation and preserve the IRS confirmation in the permanent file.

07 **Open organization-titled accounts.** Delay complex assets and material activity until counsel and tax advisors approve the acceptance path.

08 **Prepare the Form 1023-series submission.** Use the current form, instructions, Pay.gov process, eligibility worksheet, user fee, and a public-disclosure review.

09 **Complete state and local implementation.** Review state exemption, charitable solicitation, attorney-general filings, property tax, sales and use tax, foreign qualification, and periodic reporting.

10 **Close and hand off compliance.** Deliver the permanent record, determination letter, calendars, disqualified-person map, grant and investment procedures, and escalation protocol.

FILING-DATE CONTROL

A newly formed organization generally should submit Form 1023 or Form 1023-EZ within 27 months after the end of the month in which it was legally formed to obtain recognition retroactive to formation, subject to applicable exceptions and relief. Docket an internal target well before the outside date.

Responsibility matrix

Owner	Primary responsibility
Engaged counsel	Entity and jurisdiction analysis; organizing instrument; governance terms; legal narrative; classification; Chapter 42 and state-law advice.
Foundation fiduciaries	Complete facts; approve documents; appoint responsible persons; maintain records; implement controls; disclose grants and transactions before action.
CPA / return preparer	Accounting system; tax computations; estimated payments; Form 990-PF; Form 990-T and employment filings when applicable.
Investment adviser / custodian	Foundation-titled custody; valuation and transaction data; policy compliance; liquidity and risk reporting.
Grant administrator	Recipient verification; applications; agreements; payment tracking; reports; expenditure-responsibility files; grant reconciliation.
Pair Ai LLC	Attorney-directed research, document architecture, coordinated drafting, issue matrices, cross-document review, version control, implementation materials, and educational resources.

04 - PROFESSIONAL CLOSING FILE

The paperwork must prove formation, authority, and administration.

Document	Status	Completion evidence
Client intake and relationship map	Required	Mission, activities, donors, fiduciaries, family relationships, controlled entities, vendors, proposed assets, and state nexus.
Entity and jurisdiction memorandum	Required for unusual or unincorporated forms; recommended otherwise	Reasoned selection of form and jurisdiction, with proof-of-existence, continuity, liability, title, amendment, conversion, and alternative-vehicle analysis.
Organizing instrument	Required	Filed or executed instrument with Section 501(c)(3), dissolution, and Section 508(e) effects.
Governance rules and initial action	Required or form-dependent	Bylaws, association rules, or trust administrative procedures; initial fiduciary action; terms, officers, accounts, policies, and authority.
Core policies	Recommended	Conflict and self-dealing; compensation and reimbursement; gift acceptance; grantmaking; investment; records; public disclosure; whistleblower; data protection.
EIN and account evidence	Required	EIN confirmation, institution-titled accounts, signatory matrix, approval thresholds, and custody records.
Form 1023-series record	Required unless an exception applies	Filed application, attachments or eligibility worksheet, Pay.gov receipt, signer approval, IRS correspondence, and determination letter.
State and local filings	Conditional	Tax exemption, charitable solicitation, attorney-general notice, foreign qualification, property tax, service-agent, and periodic-report records.
Contribution and valuation file	Required when funded	Transfer documents, appraisals, donor information, restrictions, basis and acquisition data when available, Forms 8283 and 8282 where applicable.
Compliance binder and calendar	Required professional standard	Annual due dates, public-disclosure materials, disqualified-person map, grant and transaction controls, and assigned owners.

FILE-CONTROL RULE

Save a static copy of every final filing and attachment. Do not rely on portal access as the permanent record. Conduct a public-disclosure review before submission and remove personal identifiers and sensitive data not required by the form.

05 - FORM SELECTION

Eligibility for Form 1023-EZ is not the same as suitability.

Complete and retain the current eligibility worksheet before selecting Form 1023-EZ. A full Form 1023 is usually the stronger filing for a materially funded, operationally complex, or audit-sensitive foundation.

Issue	Form 1023	Form 1023-EZ	Professional position
Gross receipts and assets	No streamlined size ceiling.	Only organizations satisfying the current worksheet may use the EZ; current baseline generally includes $50,000 annual receipts and $250,000 total assets.	Use current thresholds and include planned near-term funding in the decision.
Private operating foundation	Can request and substantiate classification.	Not available for an organization seeking private operating foundation status.	Use full Form 1023 when operating-foundation classification is requested.
Individual grant programs	Can request advance approval of procedures in the application.	The EZ does not carry the same detailed request; later Form 8940 may be necessary.	Use full Form 1023 when scholarships, fellowships, travel, study, research, prizes, or similar programs are planned at formation.
Complex activities and relationships	Detailed narrative and schedules permit full disclosure.	Attestation-based and limited.	Use the full form for related-party arrangements, direct programs, foreign activity, unusual investments, complex compensation, and material restricted gifts.
Application record	Organizing document and supporting attachments are submitted.	Underlying documents generally are not uploaded but must already comply and remain available.	Maintain the same professional closing standard for either form.
Current user fee	Current baseline $600; verify on filing date.	Current baseline $275; verify on filing date.	Fees and electronic procedures change.

FULL-FORM TRIGGERS

Use the full form when funding approaches or exceeds the EZ limits; when noncash assets, direct programs, foreign activity, related-party compensation, shared operations, individual grants, operating-foundation status, or complex successor transactions are expected; or when a developed factual record will matter to banks, donors, regulators, or later transactions.

SIGNATURE

An authorized fiduciary must sign the application under penalties of perjury. A representative does not sign merely because the representative holds a power of attorney. The signer should review the final submission and approve the exact filing package.

06 - GOVERNING INSTRUMENT

Section 508(e) is additional to the Section 501(c)(3) organizational test.

The organizing instrument must limit purposes and powers, prohibit private inurement and political campaign intervention, restrict lobbying and nonexempt activities, and permanently dedicate assets on dissolution. A private foundation also must have the five Section 508(e) effects addressing Sections 4941 through 4945.

Provision	Required effect	Drafting and operating control
Section 4942	Require distributions at the time and in the manner necessary to avoid the tax on undistributed income.	Place the operative provision in the filed or executed organizing instrument.
Section 4941	Prohibit self-dealing with disqualified persons.	A generic conflict clause is not enough; fairness or market value alone does not create an exception.
Section 4943	Prohibit retention of excess business holdings.	Screen business interests at acceptance and after ownership changes.
Section 4944	Prohibit jeopardizing investments.	Pair the clause with a written investment policy and documented fiduciary process.
Section 4945	Prohibit taxable expenditures.	Install grant due diligence, special-grant procedures, lobbying and election controls, and expenditure-responsibility records.

Governing-instrument checklist

- ☐ The required provisions appear in the applicable articles, charter, association constitution or articles, or trust instrument - not solely in bylaws, policy, minutes, or the Form 1023 narrative.
- ☐ The Section 508(e) provisions operate during every period in which the organization is a private foundation and do not conflict with mandatory directions elsewhere in the instrument.
- ☐ The instrument separately satisfies the Section 501(c)(3) purpose, power, private-inurement, campaign, lobbying, and dissolution requirements.
- ☐ State-law terminology, powers, member provisions, trustee powers, amendment rules, attorney-general provisions, and dissolution mechanics are customized for the entity and jurisdiction.
- ☐ Every amendment is signed, dated, retained, reconciled, and included in the exemption record as required.

STATE-LAW RELIANCE

Rev. Rul. 2024-10 obsoleted the former IRS list of state laws because statutes changed and may differ by entity type. A foundation relying on state law must verify the current jurisdiction-specific rule. Express clauses in the governing instrument remain the most direct compliance route.

07 - FUNDING AND ASSET ACCEPTANCE

Formation does not approve the proposed assets.

ASSET HOLD

No noncash, restricted, debt-encumbered, or related-party asset should be transferred until engaged counsel and the donor's tax adviser approve the contribution, valuation, deduction, UBIT, debt-financed-income, excess-business-holdings, self-dealing, liquidity, title, insurance, and disposition implications.

Enhanced-review assets

Business and investment interests

Closely held stock; S corporation stock; LLC, partnership, fund, carried, option, warrant, debt, or active-business interests.

Real and tangible property

Real estate, mineral and water rights, encumbered property, collectibles, art, vehicles, aircraft, boats, livestock, and assets requiring storage or licensing.

Financial and insurance assets

Life insurance, annuities, promissory notes, receivables, guarantees, derivatives, cryptocurrency, digital assets, and private funds.

Intangible and cross-border assets

Intellectual property, royalties, patents, trademarks, copyrights, foreign assets, foreign accounts, sanctioned-region exposure, and unusual source-of-funds concerns.

Acceptance memorandum

- [ ] Identify the donor, relationships, and disqualified-person status.
- [ ] Confirm legal owner, title, restrictions, debt, liabilities, carrying costs, and transfer consents.
- [ ] Document fair market value source, independent appraisal requirements, and donor substantiation responsibilities.
- [ ] Calculate combined ownership under Section 4943 and identify any permitted holding or disposition period.
- [ ] Analyze Section 4941 direct and indirect benefit, UBIT and debt-financed income, liquidity, insurance, environmental risk, and operational burden.
- [ ] Approve a holding, use, liquidation, or disposition plan and calendar all reporting and review dates.

Restricted gifts

Material restrictions should be documented in a signed agreement addressing purpose, spending, investment, reporting, naming, modification, impossibility, donor contact, confidentiality, and the absence of personal control or return benefit. The foundation must retain sufficient discretion to administer the gift lawfully.

08 - GOVERNANCE ARCHITECTURE

Authority, custody, advice, approval, and oversight should be explicit.

Role	Core responsibility	Evidence
Governing body	Mission, strategy, grants, investments, budgets, compensation, conflicts, policies, succession, and annual compliance.	Minutes or written action, reports reviewed, recusals, and assigned follow-up.
Officers / administrator	Records, banking, accounts, grants, filings, calendars, and implementation under delegated authority.	Role descriptions, approval thresholds, access controls, and reporting.
CPA / tax preparer	Books, Section 4940 and 4942 computations, returns, estimated tax, and financial reconciliation.	Engagement, workpapers, filing evidence, and annual signoff.
Investment adviser / custodian	Custody, valuation, liquidity, performance, risk, fees, and policy implementation.	Independent statements, written agreement, and periodic reporting.
Engaged counsel	Legal classification, state law, governing instrument, Chapter 42, grants, transactions, amendments, and corrective action.	Written assumptions, approvals, issue memoranda, and escalation records.
Pair Ai LLC	Research, document architecture, coordinated drafts, cross-document controls, version management, implementation schedules, and professional resources.	Attorney-directed scope, source file, quality-control record, and final counsel approval.

Separation of duties

- No one person should alone authorize a material disbursement, initiate payment, control the account, and reconcile the transaction.
- New vendors and changes to payment instructions should receive independent verification.
- Bank and custody statements should reach the governing body or an independent reviewer directly.
- Legal advice should be shared in a manner designed to preserve privilege; family-office and business personnel should not automatically receive privileged material.
- Compensating controls should be documented when the organization is too small to fully separate functions.

09 - CHAPTER 42

Private-foundation rules operate before the annual return.

Provision	Core rule	Required control
Section 4940	Excise tax on net investment income for most domestic private foundations. Current rate is generally 1.39%.	Quarterly estimate review; investment-income workpaper; Form 990-PF reconciliation.
Section 4941	Excise taxes on direct or indirect self-dealing between the foundation and disqualified persons.	Relationship map; transaction preclearance; identified exception; correction and Form 4720 review.
Section 4942	Tax on failure to distribute the required amount. The calculation is not simply 5% of year-end assets.	Quarterly forecast; qualifying-distribution ledger; prior-year deadline control; liquidity plan.
Section 4943	Tax on excess business holdings.	Aggregated ownership ledger; gift acceptance review; disposition calendar.
Section 4944	Tax on jeopardizing investments.	Board-approved investment policy; diversification, liquidity, valuation, and enhanced-risk review.
Section 4945	Tax on taxable expenditures.	Recipient classification; grant agreement; expenditure responsibility or equivalency determination; individual-grant procedures; lobbying and election controls.
Section 4946	Definitions of disqualified persons and foundation managers.	Annual relationship questionnaire and ownership-control map.

SELF-DEALING IS NOT A FAIRNESS TEST

A transaction may be self-dealing even when it is fair, at market value, fully disclosed, unanimously approved, beneficial to the foundation, or recommended by an independent adviser. Disclosure and recusal are governance controls; they are not tax exceptions.

Compensation and reimbursement

Compensation must relate to services actually rendered, be reasonable and necessary, be approved in advance by disinterested decision-makers, and be supported by comparability information and contemporaneous records. Reimbursements should document business purpose, receipts, timing, reasonableness, and return of excess advances.

10 - GRANTMAKING

Recipient classification determines the control path.

Recipient	Baseline procedure
Domestic public charity	Verify current exempt status and public-charity classification; document purpose, approval, payment, restrictions, and closeout.
Private foundation or non-public charity	Determine whether an exception applies or use expenditure responsibility, including pre-grant inquiry, written commitment, reports, records, investigation, and Form 990-PF reporting.
Foreign organization	Use a current equivalency determination or expenditure responsibility, plus sanctions, anti-diversion, banking, and local-law review.
Individual	Use an approved charitable program with objective and nondiscriminatory criteria; obtain advance IRS approval when Section 4945(g) applies.
Governmental unit	Verify identity, public purpose, restrictions, authority, and payment controls.
Business, social-welfare organization, donor-advised fund, or intermediary	Mandatory review of qualifying-distribution, taxable-expenditure, private-benefit, and control issues.

Standard grant file

- ☐ Written request or proposal and a clear charitable-purpose statement.
- ☐ Current status and classification verification.
- ☐ Conflict and relationship screening.
- ☐ Budget, amount, payment schedule, source of funds, and approval evidence.
- ☐ Grant agreement or award letter with use restrictions, reporting, return-of-funds, and deviation procedures when appropriate.
- ☐ Payment proof, reports, monitoring, investigation of diversions, and closeout memorandum.

Special categories

Individual grants, foreign grants, grants to non-public charities, scholarships, prizes, travel and study grants, emergency assistance, lobbying-sensitive grants, recoverable grants, guarantees, and program-related investments require additional written procedures and specialist review.

> **POLITICAL ACTIVITY**
>
> No foundation grant may be earmarked for political campaign intervention. Lobbying grants require specific analysis. General-support and project grants can have different treatment and should be documented accordingly.

11 - INVESTMENTS AND BUSINESS HOLDINGS

Investment authority must be connected to charitable needs.

Investment-policy objectives

- Preserve and prudently grow assets over the appropriate horizon.
- Maintain liquidity for grants, operations, tax, and Section 4942 requirements.
- Avoid jeopardizing investments, excess business holdings, self-dealing, and unexpected UBIT or debt-financed income.
- Honor donor restrictions and applicable prudent-management law.
- Control fees, conflicts, custody, valuation, concentration, leverage, and operational risk.

Enhanced review

Issue	Questions to document
Concentration and liquidity	Issuer, industry, manager, strategy, lockup, capital calls, valuation, exit, and ability to fund grants and taxes.
Related parties	Investment manager, fund, business, co-investor, vendor, borrower, guarantor, or counterparty connected to a donor or disqualified person.
Business holdings	Combined ownership of the foundation and relevant disqualified persons; business-enterprise classification; permitted percentage; disposition period.
Program-related investments	Primary charitable purpose, income-production limits, political restrictions, commercial terms, monitoring, reporting, and exit.
Debt and pass-through interests	Acquisition indebtedness, UBIT, debt-financed income, capital calls, transfer restrictions, and tax-return consequences.
Custody and digital assets	Institutional custody, wallet control, multi-factor authentication, valuation, access, incident response, and no personal accounts.

SECTION 4942 DISCIPLINE

The governing body should use an investment spending policy and a separate statutory distribution computation. The distributable amount generally is based on noncharitable-use assets less acquisition indebtedness and statutory adjustments, not simply 5% of cash or total book assets.

12 - ANNUAL REPORTING AND DISCLOSURE

The foundation needs a recurring compliance cycle.

Timing	Required action
Monthly / before each transaction	Reconcile accounts and grants; screen counterparties; verify recipients; update conflict information; preclear related-party and special-category matters.
Quarterly	Review investment performance and liquidity; estimate Section 4940 tax; update Section 4942 forecast; review grant reports, business holdings, and exceptions.
January-February	Close books; collect custody and valuation data; inventory grants; update contributor, compensation, business-holding, and state-nexus data.
March-April	CPA prepares Form 990-PF and distribution computation; counsel reviews unusual legal issues; governing body reviews annual compliance report.
15th day of fifth month	Form 990-PF generally is due. A calendar-year foundation generally files by May 15, subject to weekends and holidays. A timely Form 8868 generally extends filing, not payment.
Before year-end	Complete prior-year distribution obligations, approve year-end grants, confirm tax and state filings, close records, and adopt the next-year budget and compliance plan.

Public disclosure

Maintain public-inspection copies of the exemption application and annual returns as required. Assume that the Form 1023 package, Form 990-PF, contributor identities, compensation, grants, investments, and other financial information may become public. Use a documented response process and a privacy review before filing.

NONFILING CONSEQUENCE

Failure to file a required annual return for three consecutive years causes automatic revocation. The annual calendar should have a primary owner, a backup owner, and an external due-date control.

13 - PRECLEARANCE

Do not sign, fund, transfer, reimburse, or vote until cleared.

Category	Examples
Disqualified-person dealings	Sale, exchange, lease, loan, credit support, goods, services, facilities, compensation, reimbursement, asset use, transfer, or economic benefit involving a donor, manager, covered family member, or controlled entity.
Business interests	Acceptance, retention, recapitalization, redemption, sale, merger, voting arrangement, or contribution of closely held or active-business interests.
Individual grants	Scholarships, fellowships, travel, study, research, artistic development, prizes, emergency assistance, educational loans, or payments for an identified individual.
Non-public-charity and foreign grants	Private foundations, supporting organizations, foreign recipients, nonexempt organizations, businesses, social-welfare organizations, and fiscally sponsored projects.
Political and lobbying activity	Candidate communications, event sponsorships, voter registration, ballot measures, legislative communications, grassroots campaigns, and lobbying-sensitive grant agreements.
Unusual investments and property	Program-related or mission-related investments, loans, guarantees, crypto, derivatives, leverage, real estate, insurance, collectibles, intellectual property, restricted securities, and encumbered property.
Shared operations	Employees, office space, equipment, software, travel, events, insurance, or vendors shared with a donor, family office, related charity, or business.
Structural actions	Merger, conversion, dissolution, transfer of substantially all assets, reclassification, Section 507 termination, material amendment, or redomiciliation.

Required preclearance file

- ☐ Current disqualified-person and ownership map.
- ☐ Identity and tax classification of all parties and recipients.
- ☐ Written terms, valuation, comparables, payment flow, source and use of funds, conflicts, and proposed approvals.
- ☐ Analysis under Sections 501(c)(3), 4941 through 4945, other applicable tax provisions, state fiduciary law, sanctions, and reporting rules.
- ☐ Contemporaneous governing-body approval, recusals, executed agreement, and post-closing monitoring plan.
- ☐ Correction and Form 4720 analysis when conduct already occurred.

14 - CLOSING AND HANDOFF

Deliver an operating system, not a binder that stops at formation.

Closing module	Contents
Permanent entity record	Entity-and-jurisdiction analysis; organizing instrument and amendments; governance rules; initial actions; fiduciary and officer rosters; policies; EIN; state records.
Tax-exemption record	Complete filed Form 1023-series package; receipt; correspondence; determination letter; authorizations; state exemption letters.
Financial and contribution record	Account records; signatory authority; contributions; valuations; appraisal records; restrictions; basis and acquisition data when available.
Grantmaking record	Policy; applications; diligence; approval templates; agreements; expenditure responsibility; foreign-grant procedures; grant log.
Compliance record	Annual calendar; disqualified-person list; conflict disclosures; Section 4942 tracking; public-disclosure protocol; preclearance forms; assigned owners.
Training and escalation	Orientation on self-dealing, distribution requirements, grants, public reporting, compensation, asset acceptance, cybersecurity, and when to call counsel.

> **CLIENT-FACING OPERATING RULE**
> No foundation asset, contract, grant, reimbursement, compensation payment, investment, or use of property should involve a donor, fiduciary, covered family member, or controlled entity until the foundation has obtained advance written tax and legal review appropriate to the facts.

First 90 days

DAYS 1-30
Confirm formation, EIN, accounts, accounting, records, conflict disclosures, insurance, professional roles, and application workplan.

DAYS 31-60
Complete narratives, financials, compensation, grants, asset schedules, policy adoption, investment and liquidity plan, and preliminary distribution forecast.

DAYS 61-90
Submit the appropriate application, preserve the exact filed record, activate correspondence and public-disclosure controls, and conduct the first compliance review.

15 - PROFESSIONAL CHECKLISTS

Three controls to complete before and after formation.

New foundation intake

- ☐ Exact legal name, jurisdiction, entity form, formation date, fiscal year, principal office, records location, and service agent if applicable.
- ☐ Specific mission and detailed description of every planned activity, beneficiary class, selection process, geographic area, and expected budget.
- ☐ Donors, substantial contributors, fiduciaries, officers, family relationships, controlled entities, vendors, compensation, shared operations, and conflicts.
- ☐ Proposed funding, ownership, value, basis, debt, restrictions, appraisal needs, business holdings, UBIT, liquidity, insurance, and personal-use concerns.
- ☐ States where the organization will solicit, employ, own property, operate programs, hold events, make grants, or maintain offices or accounts.
- ☐ Existing estate-planning instruments, donor agreements, cap tables, partnership agreements, deeds, appraisals, debt documents, insurance, budgets, and program materials.

Annual compliance certification

- ☐ Governing documents, fiduciary rosters, agents, signers, policies, and records are current.
- ☐ Conflict, family, ownership, and controlled-entity disclosures are complete; the disqualified-person map is updated.
- ☐ Books reconcile to bank, custody, payroll, grants, contributions, investments, and filed returns.
- ☐ Form 990-PF, Section 4940 tax, Section 4942 computation, other returns, payments, state copies, and public-inspection materials are complete.
- ☐ Grants, expenditure-responsibility files, individual-grant procedures, foreign grants, reports, and diversions are resolved.
- ☐ Investments, business holdings, liquidity, fees, related parties, custody, and policy exceptions are reviewed.
- ☐ Corrective actions have an owner, due date, and governing-body acknowledgment.

Transaction determination

- ☐ Transaction summary, amount, term, purpose, documents, payment flow, property use, and termination rights.
- ☐ All direct and indirect parties, intermediaries, owners, beneficiaries, decision-makers, family relationships, and control percentages.
- ☐ Recipient classification or asset classification and every special procedure required.
- ☐ Sections 4941, 4942, 4943, 4944, 4945, UBIT, state law, valuation, sanctions, insurance, and reporting analysis.
- ☐ Written determination: approved, approved with conditions, deferred, rejected, or corrective action required.

- ☐ Disinterested approval, recusals, signed agreement, accounting treatment, monitoring, and annual-return reporting.

16 - AUTHORITIES AND UPDATE PROTOCOL

Use primary sources and verify the filing-date rules.

Selected federal authorities

- IRC Sections 501(c)(3), 508, 509, 6033, 6104, 4940 through 4946, and related Treasury Regulations.
- Treas. Reg. Sections 1.501(c)(3)-1, 1.508-1, and 1.508-3.
- Rev. Rul. 2024-10, 2024-22 I.R.B. 1240, concerning Section 508(e) and reliance on state law.
- Rev. Rul. 85-160, confirming that Section 508(e) provisions do not replace the Section 501(c)(3) dissolution requirement.
- IRS Publication 557; current Forms 1023, 1023-EZ, 990-PF, 4720, 8868, 8940, 8282, and 8283 and their instructions.

Update protocol

- ☐ Before formation, verify the current Code, regulations, exemption forms, eligibility worksheet, user fees, Pay.gov process, and state entity and charitable-asset law.
- ☐ Before funding, update the asset, valuation, deduction, business-holdings, self-dealing, UBIT, debt, liquidity, title, insurance, and sanctions analysis.
- ☐ Before each annual review, verify Form 990-PF instructions, Section 4940 rate, electronic filing, state calendars, grantee status, and the prior-year Section 4942 deadline.
- ☐ Update professional guides after material legislation, regulations, revenue rulings, form changes, or state-law developments.
- ☐ Maintain a matter-specific memorandum for unusual assets, related-party arrangements, individual-grant programs, foreign activity, operating-foundation status, structural conversions, and terminations.

Research note: this public guide was developed from the attached Pair Ai-authored federal private-foundation practice memorandum and verified against current official IRS materials available on September 1, 2026. State law and facts remain controlling.

PAIR AI LLC

Build the institution, not merely the filing.

A durable private foundation connects mission, entity form, governing documents, exemption, assets, fiduciary roles, grants, investments, reporting, and recurring administration. Use this guide to frame the professional work - not to replace it.