

## Private Foundations Bulletin

# Estimated Tax Payment Considerations for Private Foundations

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In our previous Private Foundations Bulletin, [Form 2220 – To Include, or Not to Include, That Is the Question](#), we discussed the basics of the Form 2220, *Underpayment of Estimated Tax by Corporations*. In this month's bulletin, we provide additional information for private foundations on their estimated tax payments.

## Estimated Tax Payment Provisions

As income is earned, taxpayers are generally required to pay their tax liability in installments in the form of estimated tax payments. If a taxpayer fails to make the minimum required payment of any installment, penalties and interest are imposed. Under the Tax Reform Act of 1986, the Internal Revenue Code (IRC) applied the estimated tax provisions applicable to corporations (regardless of whether a private foundation is organized as a corporation or a trust) to the excise tax on net investment income of private foundations.

Estimated tax applies to domestic private foundations and nonexempt charitable trusts treated as private foundations and to the income tax on unrelated business taxable income of domestic tax-exempt organizations. These provisions, although adjusted and improved over the years, remain predominantly intact.

## Projected Tax Liability is Less than \$500

A foundation with net investment income excise tax or unrelated business income tax less than \$500 is not required to make estimated tax payments and rather can make its tax payment(s) with its return(s) or, if requesting an extension of time to file, with its extension(s) (i.e., the tax must be paid by the original due date of the return).

## Projected Tax Liability is Greater than \$500

If a private foundation is required to make estimated tax payments greater than \$500 for the year, a Form 990-W (Worksheet), *Estimated Tax on Unrelated Business Taxable Income for Tax-Exempt Organizations (and on Investment Income for Private Foundations)* should be used to calculate the required estimated tax payment(s) due. When calculating the required payment(s) there are three options to choose from: (1) the smaller of the current year tax vs. prior year tax; (2) annualized income installment and/or adjusted seasonal installment methods; and, (3) "large organization" requirement.

A foundation is considered a "large organization" if during any of the prior three tax years immediately preceding the current tax year, taxable income was \$1 million or more. As an example, if the foundation is completing their 2022 filing and had taxable income of \$900,000 in 2021, \$1.2 million in 2020 and \$850,000 in 2019, it would be considered a large organization as taxable income was above the \$1 million threshold in one of the preceding three tax years.

## Timing of Payments

For calendar or fiscal year foundations, estimated tax payments are required to be deposited with the IRS by the 15<sup>th</sup> day of the fifth, sixth, ninth and twelfth months of the tax year. For calendar or fiscal year foundations, making estimated tax payments of unrelated business income tax payment are required to be deposited with the IRS by the 15<sup>th</sup> day of the fourth, sixth, ninth and twelfth months of the tax year. If a deposit is to be made on a day that isn't a business day (e.g., Saturday, Sunday, or legal holiday), then the deposit is considered timely if made by the close of the next business day. In addition, certain deadlines may be extended for federally declared disaster-area taxpayers, which can be found on the IRS's website under [tax relief in disaster situations](#).

The below table provides an illustration of when payments are due for a calendar year-end (December 31, 2023) private foundation:

Installments	Form 990-PF	Form 990-T
First	May 15, 2023	April 18, 2023
Second	June 15, 2023	June 15, 2023
Third	September 15, 2023	September 15, 2023
Fourth	December 15, 2023	December 15, 2023

## Electronic Funds Transfers

A private foundation must make all federal depository tax deposits (such as excise tax, unrelated business income tax and employment taxes) electronically using electronic funds transfer. No longer may these types of taxes be paid by check or money order. Generally, such electronic funds transfers are made using the Electronic Federal Tax Payment System (EFTPS®) but may also be made by a foundation's tax preparer, financial institution, payroll service, or other trusted third party.

The EFTPS®, which is a free service provided by the U.S. Department of the Treasury and often the most widely used option, provides for a secure method of making federal tax deposits online at [www.eftps.gov](http://www.eftps.gov), by phone at 1.800.555.3453, or by wire through a participating financial institution using a Same-day Taxpayer Worksheet. Whether making a payment via EFTPS® online, by phone, or by using a Same-day Taxpayer Worksheet, the foundation must first be enrolled in the EFTPS®.

### **Enrollment in the EFTPS®**

Enrollment can be started by visiting [www.eftps.gov](http://www.eftps.gov) or by calling EFTPS® Customer Service at 1.800.555.4477 and requesting an enrollment form via postal mail (which usually takes 7 to 15 days).

When enrolling online, after reading and accepting the Privacy Act and Paperwork Reduction Act, the foundation will want to enroll as a "Business." You will then be asked to enter the foundation's employer identification number, name, business phone number, contact information and payment options.

When selecting a payment option, you are given the choice of authorizing a transaction yourself using a foundation checking or savings account or having the foundation's financial institution initiate the transaction. Either option is acceptable, but it should be noted that the second option may not be available with all financial institutions and such institutions may charge a nominal fee. The foundation should contact its financial institution prior to selecting the second option.

Once enrolled, an EFTPS® personal identification number (PIN) – which could take 7 to 10 business days – will be mailed. The PIN is required to activate and log into your new EFTPS® account.

### **Tips When Using Your EFTPS® Account**

- For enhanced security purposes, EFTPS® accounts that do not see activity for more than 18 months are deactivated. If an account has been deactivated, the old account cannot be re-opened and the foundation will need to re-enroll, which also means waiting 7 to 10 business days for a new PIN.

Notifications of such deactivations or alerts as to inactivity are not sent to the taxpayer, so it may come as a surprise. If your foundation makes payments infrequently, to ensure your account remains active, we recommend at the very least logging into the system and changing your password every year (12months), even though passwords expire every 13 months.

- When making a payment online, be sure to verify and review the foundation's bank account information each time. In certain cases, our clients have reported having changed a bank account in the system only to have it revert to the old account. If the bank account is defunct/closed, a confirmation is still provided stating the payment has been processed only to find out later that the payment was not completed. No notification is sent if a payment is not completed. The foundation should confirm payment against the debit from the bank account within a day or so after payment.

For more detailed instructions and further information on enrollment and/or using EFTPS®, we encourage you to visit [www.eftps.gov](http://www.eftps.gov) or read IRS publication 4990, [\*Electronic Federal Tax Payment System: Payment Instruction Booklet for Business & Individual Taxpayers\*](#).

### **State Unrelated Business Taxable Income Estimated Tax Payments**

While the focus of this bulletin has been on federal excise tax and federal unrelated business income tax and estimated tax payments, it is important to remember that estimated tax payments may be required at the State level for unrelated business taxable income as well. States vary in the timing of when payments are to be made, how to calculate such estimates and ways to pay such estimates. If your foundation files State unrelated business taxable income returns, consult with your tax preparers to ensure estimated tax payments are made timely and in sufficient enough amounts.

### **Contact Us**

We welcome the opportunity to answer any questions you may have related to this topic or any other accounting, audit, tax or advisory matters relative to private foundations. Please call 212.286.2600 or email any of the Private Foundation Services team members below:

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