

May 2017

Private Foundations Bulletin

Form 990-PF: Direct Charitable Activities

Part IX-A of the federal Form 990-PF asks the foundation to list its four largest direct charitable activities. Often we are asked by our clients if it is necessary to provide this information and, if so, what type(s) of activities should be listed.

If the foundation does perform direct charitable activities, such information is required and, if presented accurately, could serve as a marketing tool for the foundation, as well as substantiate certain salaries and wages.

Examples of Direct Charitable Activities

Direct charitable activities exist when a private foundation maintains some **significant involvement** in its grant program and/or expenditures are made by the foundation to conduct exempt activities by itself rather than by or through grantee organization(s) that receive the distributions.

The following are some examples of direct charitable activities:

- Conducting educational seminars and conferences.
- Providing goods, shelter, or clothing to indigents or disaster victims if the foundation maintains some significant involvement in the activity rather than merely making grants to the recipients.
- Conducting scientific, historic, public policy, or other research with significance beyond the foundation's grant program that does not constitute a prohibited attempt to influence legislation.
- Publishing and disseminating the results of such research, reports of educational conferences, or similar educational material.
- Supporting the service of foundation staff on boards or advisory committees of other charitable organizations or on public commissions or task forces.

Direct expenses related to these activities can be summarized on the federal Form 990-PF, as well as indirect expenses such as staff salaries which can be allocated on a reasonable basis.

Expenses attributable to administering grant programs, such as reviewing grant applications, site visits, selecting grantees and reviewing reports relating to the use of grant funds, usually do **not** constitute direct charitable activities.

Criteria for Maintaining Significant Involvement in Grant-Making

The IRS considers the following factors in determining if a foundation maintains significant involvement in grant-making as referenced above:

1. The foundation operates as follows:
 - An exempt purpose of the foundation is relieving poverty or human distress, and its exempt activities are designed to improve conditions among the poor or distressed or in an area

- subject to poverty or national disaster (such as providing food or clothing to indigents or residents in a disaster area),
- The foundation makes grants or other payments directly for the exempt purpose without the help of an intervening organization or agency, and
 - The foundation has a salaried or voluntary staff of administrators, researchers, or other personnel who supervise and direct the exempt activities on a continuing basis,

or

2. The foundation has developed specialized skills, expertise, or is involved in a particular discipline (such as scientific or medical research, social work, education, or the social sciences). It has a salaried staff of administrators, researchers, or other personnel who supervise or conduct activities that support the foundation's work in its particular area of interest. As part of these activities the foundation makes grants, scholarships, or other payments to individuals to encourage their involvement in the foundation's area of interest and in a segment of the activities the foundation carries on (such as grants under which the recipients, in addition to independent study, attend classes, seminars, or conferences the foundation sponsors or conducts, or grants for social work or scientific research projects under the foundation's general direction and supervision).

Trend

Direct charitable activities are common within large private foundations and private operating foundations of any size. They are not as common in family and small foundations. Nevertheless, there appears to be a trend for some foundations (large and small) to initiate some programs that could be construed as having a direct charitable activity component. These foundations are starting to function as a hybrid between a private foundation and a private operating foundation. Foundations that have these types of programs normally have more employees and, consequently, higher salaries and wages than a "plain vanilla" private foundation. In connection therewith, foundations that have direct charitable activities probably should not be compared to a "plain vanilla" foundation when performing compensation studies.

In Summary

Nowadays —more than ever— it is prudent for foundations to ascertain if any grant programs have a direct charitable activity component and, if so, that it is properly accounted for and disclosed on the federal Form 990-PF tax return.

Contact Us

Should you have any questions regarding your private foundation's compliance with any of the items detailed in this bulletin, please contact the following experienced professionals in our Philanthropic and Private Foundation Services Practice: Thomas F. Blaney, CPA, CFE, Partner and Co-Director at tblaney@pkfod.com or Christopher D. Petermann, CPA, Partner and Co-Director at cpetermann@pkfod.com.

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