

April 2021

## Private Foundations Bulletin

# Direct Charitable Activities – Beyond Grantmaking

Private foundations are generally known for their grantmaking programs. Through the activities of grantee organizations, the foundation's mission is advanced. Grantmaking, however, is not the only activity a foundation can conduct to further its exempt purpose.

A foundation may also conduct direct charitable activities to further its mission and help redefine how foundations typically operate. As defined by the Internal Revenue Service (IRS), direct charitable activities occur when a foundation maintains a **significant involvement** in its grantmaking program and/or expenditures are directly incurred by the foundation to conduct charitable activities, rather than by or through a grantee organization that receives a grant.

### Examples of Direct Charitable Activities and Related Rules

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 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 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.

Other direct service programs can include grants made to individuals to support active programs in line with carrying out the foundation's exempt purpose.

The expenditures are treated as qualifying distributions made directly for the active conduct of exempt activities only if the foundation maintains significant involvement in the programs. In addition, expenditures can be made as long as the foundation does not violate self-dealing rules or private benefit rules and obtains IRS pre-approval.

Expenditures directly related to these activities can, and should, be summarized on the federal Form 990-PF, *Return of Private Foundation*, along with indirect expenses, such as staff salaries and benefits, which can be allocated on a reasonable basis and help tell a more accurate report of a foundation's charitable activities and operations. This information can also help further justify employee headcount and related compensation. Often times when analyzing programmatic budgets and conducting peer analysis, many foundations will add their direct charitable activities to their grantmaking totals when talking about their programmatic payout in comparison to administrative overhead.

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

## Scholarship Programs

Foundations that have an IRS-approved scholarship program could consider disclosing the indirect expenditures associated with running the program on their federal Form 990-PF as a direct charitable activity due to the significant amount of time administering such a program. This is a great opportunity for foundations to discuss the number of students served by the program, along with providing information regarding the program itself and the application requirements of the program.

## Criteria for Maintaining Significant Involvement in Grantmaking

The IRS considers the following factors in determining if a foundation maintains significant involvement in its grantmaking program.

- The foundation operates as follows:
  - The exempt purpose of the foundation is to relieve 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);
  - To make grants or other payments directly for the exempt purpose without the help of an intervening organization or agency, and
  - Has a salaried or voluntary staff of administrators, researchers, or other personnel who supervise and direct the exempt activities on a continuing basis.

**or**

- The foundation has the following characteristics in the performance of their exempt purpose:
  - Developed specialized skills, expertise, or is involved in a particular discipline (such as scientific or medical research, social work, education, or the social sciences);
  - Has a salaried staff of administrators, researchers, scientists or other personnel who supervise or conduct activities that support the foundation's work in its particular area of interest;
  - 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).

**Note:** According to the IRS, if a foundation does no more than select, screen, and investigate applicants for grants or scholarships, under which the recipients perform their work or studies alone or exclusively under the direction of another organization, the grants or scholarships will not be treated as qualifying distributions made directly for the active conduct of the foundation's exempt activities. However, the administrative expenses of screening and investigating (as opposed to the grants or scholarships themselves) may be treated as qualifying distributions made directly for the active conduct of the foundation's exempt activities.

## Direct Charitable Activities and Public Awareness

As the federal Form 990-PF is a readily available public document, foundations should take this opportunity to examine their non-grantmaking programs to determine if these program expenditures should be disclosed as direct charitable activities. Consideration should be given as to what constitutes a direct charitable activity and the allocation methodology of indirect expenses associated with the activity. This is a great opportunity for foundations to disclose to the public the significant non-grantmaking activities the foundation is already performing.

## 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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