

Private Foundations Bulletin

Self-Dealing Rules: Disqualified Persons and Charitable Events

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Private foundations are subject to strict IRS rules designed to prevent self-dealing and protect charitable assets from providing improper personal benefits. Two areas that frequently raise compliance questions are who qualifies as a disqualified person and how charitable galas or fundraising events can inadvertently trigger self-dealing.

Understanding how these concepts intersect is essential for foundation boards, managers and donors to avoid excise taxes and reputational harm.

Who Is a Disqualified Person?

The IRS broadly defines disqualified persons to include individuals and entities that have significant influence over or financial relationships with a private foundation. These include officers, directors, trustees, key employees and substantial contributors, as well as certain owners of entities that make substantial contributions to the foundation. Family members of these individuals, such as spouses, ancestors, children, grandchildren and their spouses, are also considered disqualified persons, though siblings are specifically excluded. In addition, organizations in which disqualified persons own more than a 35% interest and certain government officials may fall under this definition in specific circumstances.

Identifying disqualified persons is a critical governance responsibility. Transactions that are otherwise routine can become prohibited acts of self-dealing if they involve a disqualified person and give a personal benefit, even unintentionally.

Self-Dealing and Charitable Galas

Charitable galas, benefit dinners and similar fundraising events present a common but often overlooked risk area for private foundations. When a foundation purchases or receives tickets to such events, those tickets are considered to have tangible economic value, typically equal to the fair value of the goods and services received at the event. If a disqualified person uses those tickets, the IRS generally treats the benefit received as an act of self-dealing subject to excise taxes.

Unlike individual donors, private foundations cannot separate the ticket price into charitable and non-charitable components. Even the portion deemed “charitable” is treated as having economic value because it relieves the attendee of the obligation to pay for admission. As a result, if a disqualified person wishes to attend a fundraising event, the best practice is for that individual to purchase a ticket personally at the same price paid by members of the general public.

Limited Exceptions and Best Practices

The IRS does allow limited exceptions where benefits provided to disqualified persons are reasonable and necessary to carry out the foundation’s exempt purpose. For example, attendance at a gala may be permissible when it is reasonably necessary to carry out the foundation’s exempt purposes (i.e., if a board member or foundation manager is present solely to monitor the use of grant funds or evaluate a charitable

program). While these individuals may attend in their capacity as foundation representatives, other disqualified persons — such as certain family members — may not be permitted to attend if the foundation purchases/receives tickets for the individual's spouse/family as a guest(s), as this could be interpreted as a private benefit and trigger an act of self-dealing. These exceptions are narrowly interpreted and should be carefully documented.

As a matter of best practice, private foundations should consider returning event tickets they receive or refraining from assigning them to disqualified persons. Foundations may still support events through sponsorships or contributions that provide recognition without conferring personal benefits. If self-dealing is identified, corrective action should be taken promptly in consultation with professional advisors to mitigate penalties.

Why It Matters

Understanding who qualifies as a disqualified person and how self-dealing rules apply, particularly in the context of charitable events, is essential to maintaining compliance and safeguarding a private foundation's mission. Clear policies, proactive education and professional guidance can help foundations navigate these rules while continuing to support charitable causes effectively and responsibly.

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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