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BEYOND GRANDMAKING: ADDITIONAL MECHANISMS FOR MISSION

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OVERVIEW

- Many foundations, public charities and individual donors are looking for the biggest "bang for their buck;" they want to increase the impact of their charitable activities; they want to change the world, in big or small ways.
- Foundations want to achieve their missions by going beyond or supplementing their traditional grantmaking activities.
- Another title for this program could be "thinking outside the box, while working within the rules."
- We will discuss:
  - The basic parameters of the private foundation rules.
  - Alternatives to traditional private foundations, including foundations that engage in direct charitable activities, medical research organizations, charitable joint ventures and more.
  - Program and Mission Related Investments.

PRIVATE FOUNDATION REQUIREMENTS

To remain tax-exempt, and/or avoid penalties, private foundations (unlike public charities) must comply with numerous requirements when making grants or investments, including:

- Avoiding investments that "jeopardize" their charitable purpose (§ 4944)
- Distributing annually at least 5 percent of net investment income in "qualifying distributions" for exempt purposes (§ 4942)
- Exercising "expenditure responsibility" when making a grant to or "charitable" investment in for-profit or other non-c3 entities (§ 4945)

PRIVATE FOUNDATION REQUIREMENTS (CONT'D)

- Avoiding more than 20 percent of ownership interests (together with disqualified persons) in a business enterprise (§ 4943)
- Avoiding self-dealing transactions between a private foundation and disqualified persons (§ 4941)
- Avoid private inurement and private benefit (§ 501(c)(3))
- Paying a 1 or 2 percent excise tax on net investment income (§ 4940)

FIVE PERCENT ANNUAL DISTRIBUTION REQUIREMENT

- § 4942 requires a private foundation to pay out annually at least 5 percent of its net investment income in qualifying distributions for exempt purposes.
- What are qualifying distributions?
  - All grants to 509(a)(1) & (a)(2) charities, non-charities (for profits), and eligible individuals, as long as IRS rules are followed
  - Reasonable & necessary administrative expenses related to grantmaking
  - Assets used to conduct charitable purpose (such as buying a computer for grant-tracking)
  - Charitable set-asides
  - Program Related Investments (PRIs) (more on this later), and
  - DIRECT CHARITABLE ACTIVITIES

WHAT CONSTITUTES DIRECT CHARITABLE ACTIVITIES?

A private non-operating foundation can engage in direct charitable activities to supplement its traditional grantmaking, and such direct charitable expenditures will be qualifying expenditures for section 4942's 5% payout requirement. A foundation can also engage almost exclusively in direct charitable activities and qualify as a private operating foundation.

The Instructions to Part IX-A of Form 990-PF provides a non-comprehensive list of examples of direct charitable activities:

- Acquire or maintain the operating assets of a museum, library, or historic site or to operate the facility;
- Provide goods, shelter, or clothing to indigent or disaster victims if the foundation maintains some significant involvement in the activity rather than merely making grants to the recipients;
- Conduct educational conferences and seminars;
- Operate a home for the elderly or disabled;

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"Beyond Grantmaking: Additional Mechanisms for Mission"