

10 Things You Didn't Know You Could Do With Your Foundation

Grants to Individuals

Sharon Schneider, Philanthropic Director

In our everyday lives, we sometimes come across people in our community facing tough times and we want to reach out: we take our family to a neighborhood barbecue to raise money for a child's kidney transplant; we drop spare change in the coffee can next to the cash register to support the family of a fallen firefighter; our synagogue or congregation provides home-cooked meals, child care, and other forms of support to families in the midst of crisis.

Although we can and do have an impact as individuals, many philanthropically inclined individuals don't realize that a private foundation can provide much-needed cash grants directly to individuals and families in times of need. Foundations are often in an excellent position to respond quickly, flexibly and with good stewardship during a time of crisis, when quick action is most needed. Rather than making ad-hoc gifts, you can make grants using dollars for which you've already received a tax deduction via contributions to your foundation.

Many people aren't aware that the IRS permits private foundations to make grants to individuals in urgent need without advance approval. Based on the provisions of IRS publication 3833, Foundation Source has created three ways for our clients to provide this kind of assistance consistent with federal tax rules: emergency, hardship, and medical emergency and relief distress grants may be made without prior authorization as long as the foundation documents, among other things, the recipient's need for assistance; the objective criteria applied to assess need; the process by which recipients were selected; and the name, address and amount distributed to each recipient. To clear the way for our clients to make these grants without the administrative burden or compliance concerns, Foundation Source worked out a streamlined process designed to meet all IRS requirements for the following types of grants to individuals:

1. Emergency Assistance Grants

- For those who experience natural disaster or unexpected short-term emergency
- One-time donations up to \$5,000 per household
- Must be distributed within 3 months of the emergency
- No financial requirements for applicants

2. Hardship Assistance Grants

- For those who experience ongoing hardship, such as unemployment
- Donations up to \$5,000 per household, per 12-month period

- Applicants must meet the specified guidelines for either low- or moderate-income households, which were derived from the Collection Financial Standards of the IRS
- Requires third-party verification (clergy, social worker, etc.)

3. Medical Emergency and Distress Grants

- For those facing a grave, life-threatening illness or terminal condition
- One-time donations of up to \$5,000 within a 12-month period
- Requires third-party verification from a health care provider
- No financial requirements for applicants

IRS regulations do not put specific dollar limits on these types of grants; however, based on informal conversations with IRS officials, Foundation Source has concluded that \$5,000 is a reasonable grant amount for the level of documentation and due diligence involved. In some cases, we have assisted our clients in conducting additional due diligence and gathering additional documentation in order to make a larger grant.

There are no tax ramifications for the recipients of these grants but in all cases they must be “no strings attached”—meaning that the foundation cannot stipulate how the recipient is to use the grant funds. The IRS requires that the foundation document, among other things, the grantee’s need for assistance at the time of the grant; the objective criteria applied to assess need; the process by which recipients were selected; and the name, address and amount distributed to each recipient.

Although providing emergency and hardship assistance to individuals is permitted by federal tax law, a foundation must be certain that its charter documents (such as bylaws for a corporation or trust instrument for a trust) do not prohibit grants of the sort described below. Foundations established by Foundation Source are permitted by their charter documents to make all three of these types of grants to individuals.

Finding and Selecting Qualified Recipients

The group of individuals that may properly receive assistance is called a “charitable class.” The IRS requires that the charitable class be large or open-ended enough so that the total number of members comprising the class cannot be precisely quantified. However, if a foundation makes grants only to people known to its board, the class would not be deemed sufficiently large or open-ended because the members of the group could be precisely quantified. Therefore, it is crucial that the foundation develop a means of identifying persons in need of assistance that extends beyond its board’s immediate sphere of social contacts. This may be accomplished in a variety of ways: obtaining referrals from clergymen, local charities, community organizations and social workers, reading newspaper and magazine articles, and establishing other channels.

With all three types of assistance to individuals, the foundation makes its own assessment of the applicants’ needs and determines the amount of assistance, if any, to award each applicant based on the information in the application. Foundations that follow the process established by Foundation Source need not obtain advance IRS approval before providing the following types of assistance to individuals:

Emergency Assistance Grants

Emergency assistance grants provide financial assistance for individuals and families who are in need of support due to an emergency or disaster, such as a flood, fire, tornado, violent crime, sudden death, physical abuse, or trauma. (If the individual in need is facing a life-threatening illness, the Medical Emergency Assistance and Distress Relief grant, described below, would be the more appropriate form of assistance.)

Emergency assistance is limited to a one-time grant of \$5,000, in a lump sum or in installments, within a three-month period after the emergency that brought about the need for assistance. Regardless of their financial status, recipients can use emergency assistance for food, clothing, housing, transportation, medical treatment and professional counseling. However, the foundation cannot stipulate precisely how recipients can use these funds.

Foundation Source's Emergency Assistance form requires far less information from the applicant than the hardship assistance application due to the urgency of the situation (in accordance with IRS Publication 3833 pertaining specifically to emergency relief provided to individuals). The Emergency Assistance form requires only the applicant's contact information, a list of each person residing in his or her household with each listed person's name, age, relationship to the applicant, and social security number, a brief description of the emergency that gave rise to the need for assistance, and the amount actually disbursed or authorized to be disbursed. The applicant and the foundation's president must sign declarations identical to those required by the Hardship Assistance Application (described below).

Emergency Assistance Case Example: Direct Disaster Relief

In fall 2007, a series of wildfires destroyed hundreds of homes in the San Diego area. Many families barely escaped with their lives, and didn't have time to pack up clothes, toiletries and household necessities. Like many disaster victims, they were without immediate access to critical cash and were unable to start rebuilding their lives until the insurance company reviewed their claim and issued a check—a process that could take weeks or months.

After several clients contacted us, asking how their private foundation could help families displaced by the wildfires, Foundation Source located organizations in the San Diego area that could serve as reliable partners, including several churches in the Episcopal diocese of San Diego and a government relief services office in Rancho Bernardo, as well as a vice mayor for one of the surrounding towns.

After establishing contact with relief workers on the ground, we explained the emergency assistance grants process and trained the workers how to identify and document families in need. The workers were sent simple forms via email and they began submitting vetted applications right away.

Ten Foundation Source clients asked to review the applications forwarded by the partner charities. Within a week of the fires, fifteen families received emergency assistance grants ranging from \$1,000 to \$5,000.

Following up on an emergency assistance grant a month later, one foundation was happy to find the family had used the money to rent an apartment and buy basic household and school supplies to help their children maintain a sense of normalcy. Although the recipient family now had some breathing room in their finances, our client told them, “We don’t expect you to pay us back. But we hope you’ll pay it forward, and help another family in need someday.”

Hardship Assistance Grants

Up to \$5,000 can be awarded over each twelve-month period to economically disadvantaged individuals and households suffering a transitory hardship, such as job loss, illness or temporary displacement. Foundation Source has developed two types of hardship assistance applications:

Low-Income Households

This form of assistance enables foundations to provide financial assistance to low-income households. To be eligible, the applicant’s household income must be less than the amount specified on the application for the number of individuals residing in the applicant’s household. To disqualify applicants with low income but significant net worth, the application states that an applicant’s household must have a net worth below \$70,000. Low-income hardship assistance is limited to **one or more grants per household, not to exceed \$5,000 in total within a twelve-month period.**

The application for low-income hardship assistance (the “LI Application”) requires a description of the hardship that brought about the need for assistance as well as how the applicant intends to use the grant funds. Applicants are required to provide a signed referral from one of several specified sources, such as a social worker. Applicants also must sign a declaration stating that the information provided in the application is true to the best of their knowledge.

In the application, the foundation president must provide an explanation of how the applicant’s needs came to the foundation’s attention and the factors that influenced them to provide hardship assistance to the particular individual or household. The president must sign a declaration that no disqualified person will benefit from the grant and that the proceeds will not be used for the prohibited purposes specified.

Moderate-Income Households

In some cases, an individual may earn a decent salary but will still be in need of financial assistance due to unexpected debt or expenses. The purpose of this type of grant is to provide financial assistance for moderate-income households in severe financial need as a result of job loss, temporary displacement, or extraordinary medical need. As with the LI Application, the moderate-income grant application (the “MI Application”) requires that the applicant’s household income (depending on his or her household size) and net worth not exceed the amounts and limits specified, and that the foundation’s assistance be limited to **one or more grants per household, not to exceed \$5,000 in total within a twelve-month period.**

The maximum levels for household income and net worth on the MI Application are slightly higher than the LI Application to reflect income and net worth levels of households that normally are self-sufficient but are vulnerable to financial distress in the face of unexpected events, such as job loss or inability to pay unusually high medical bills not covered by medical insurance.

The MI Application requires the same information as the LI Application but with more detailed financial information regarding household monthly expenses. This affords the applicant an opportunity to demonstrate a genuine need for grant funds, despite a household income level that might otherwise be sufficient to meet everyday needs.

Hardship Assistance Case Example: Helping Families Avoid Homelessness

Shortly after their family foundation was created, Barbara and Stephen Miller met a young woman at a community event who worked for Prairie State Legal, an Illinois nonprofit that provides legal assistance to low-income families who are facing credit problems, eviction notices, utility shut-offs and other legal action. Prairie State Legal helps their clients navigate the often unfriendly and unforgiving labyrinth of bureaucracy. Without their assistance, many of these families would end up slipping into homelessness because of something as simple as an unpaid utility bill, which could cause them to lose their public benefits.

After hearing about the work of Prairie State Legal, Barbara and Stephen asked the woman, "How can we help? If you could have anything to make your job easier, what would it be?"

After thinking it over, the woman said they could really use a small reserve of flexible funds for difficult situations that came across their desk. As an example, suppose a grandmother owed \$1,200 in electric bills because her grandson stole her social security number to set up, run up and then run out on an account. If she couldn't pay the bill in 30 days, the electric company would file a complaint which would wipe out her eligibility for all public benefits, including her Section 8 voucher. In such a scenario, Prairie State could negotiate with the electric company to get them to forgive her late fees and finance charges of \$500, bringing the balance to \$700. They even might be able to get \$200 from the utility's assistance fund toward the bill, bringing the balance to \$500. If they could get the payments down to \$300, the grandmother could realistically make payments of \$25/month. But where could they get the \$200 to bridge the gap?

Barbara and Stephen knew they wanted to provide bridge funding for such one-time needs, support that could really make a difference in keeping families in their homes. We happily told them about Foundation Source's process for making hardship grants to individuals and how it worked. Next, they provided an application form to Prairie State, who would find eligible families to complete them. Then, Prairie State would forward them to Barbara and Stephen for approval and on to Foundation Source for processing. The whole thing would be completed in just a few days.

Today, after 13 grants to individuals of limited means, the Millers report they feel energized and gratified by their involvement with these families and the difference their gifts are making in enabling them to stay in their homes.

Medical Emergency and Distress Relief Grants

Foundation Source also offers foundations the ability to make medical emergency assistance and distress relief grants to those in need of relief from the physical and mental trauma caused by a grave, life-threatening illness. This includes persons in need of short-term counseling because of the stress resulting from a medical emergency or extreme illness.

Because of the urgency of the situation, as with emergency assistance grants, the applicant is not required to provide the foundation with financial background. However, assistance is limited to one grant of up to \$5,000 (whether in a lump sum or in installments) within a twelve-month period.

Medical Emergency and Distress Assistance Case Example: Warmth in Life's Coldest Season

One of our clients uses our medical distress grants to help the families of cancer patients in whatever way assistance is needed: payment of utilities during the winter; cab fare to visit the hospital; new school clothes for kids whose parents spend every dime on medical bills. The oncology staff at the hospital identifies families in need, our client approves the request, and Foundation Source executes the grant.

The hospital staff reached out to our client to tell him about the difficult circumstances of the family of Mr. Johnson, a man diagnosed with terminal cancer. The Johnsons' furnace had broken and they were told it would cost \$2,500 to fix it—money that the family did not have. It was the middle of a frigid New England winter and the family wanted to focus their energy on their ailing father but their home was unlivable without a working furnace. Our client made a medical distress grant so the family could fix their furnace. A few days later, Foundation Source received this email:

“Mr. Johnson died yesterday, just three days after I gave his wife the hardship grant check. He passed away knowing his family had been helped, his wife could focus on caring for him in his final days, and the family can better cope with their loss. Thanks again.”

An Individual Answer for Individual Needs

Grants to individuals provide a unique opportunity for foundations to help those who have fallen on hard times avoid the downward spiral that can accompany serious illness or a missed pay check. If you are intrigued by the possibilities of grants to individuals, please don't hesitate to contact us at 800-839-0054 to learn more about how we support innovative philanthropy.

About Foundation Source (www.foundationsource.com)

Foundation Source is the nation's largest provider of comprehensive support services for private foundations, bringing unparalleled knowledge and expertise to clients across the country. The company's administrative services, online foundation management tools and philanthropic advisory services provide a total outsourced solution for private foundations. The result: better-run, more effective foundations and more enjoyable philanthropy. Our clients supply the funds, the vision and the philanthropic goals; we provide everything else.

Today, Foundation Source provides its services to more than 1,100 family, corporate and professionally staffed foundations coast to coast, ranging in size from \$250,000 to over \$500 million. The company provides its services directly to philanthropically focused families and institutions as well as in partnership with the nation's leading private wealth management firms, law firms and accounting firms. Foundation Source is headquartered in Fairfield, Connecticut, with auxiliary locations in Atlanta, Chicago, Dallas, Denver, Los Angeles, New York City, Philadelphia, San Francisco, South Florida, and Washington, D.C.



55 Walls Drive
Fairfield CT, 06824
800.839.0054
www.foundationsource.com

Atlanta | Chicago | Dallas | Denver | Los Angeles | New York City
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