

Grants to Individuals

USING A PRIVATE FOUNDATION
TO GIVE DIRECTLY TO
PEOPLE IN NEED

Although private foundations routinely grant to charities and other nonprofit organizations, many philanthropically inclined individuals don't realize that foundations may also make grants to individuals. Our foundation clients use these types of grants to provide relief to victims of forest fires, hurricanes, and terminal illness. The recipients can use the funds to pay for everything from roof tarps to emergency cooking and heating equipment.

As long as certain procedures are followed, the IRS permits private foundations to make hardship and emergency grants to individuals without seeking prior approval. Based on IRS publication 3833, **Foundation Source has created a streamlined process and forms for our clients to make the following types of grants:**

EMERGENCY ASSISTANCE

grants provide financial aid for individuals and households that have experienced some kind of life-altering emergency, tragedy, or natural disaster that has rendered them unable to meet their basic needs (e.g., flood, fire, violent crime, physical abuse, or trauma). Recipients don't have to demonstrate financial need, and they may use the funds to pay for food, clothing, shelter, transportation, medical treatment, and professional counseling.

HARDSHIP ASSISTANCE

grants are designed to ameliorate the transitory hardship caused by job loss, family illness, or other temporary displacement. To be eligible for assistance, applicants must demonstrate financial need.

MEDICAL EMERGENCY/

DISTRESS RELIEF is typically given to those in need due to the physical and mental trauma inflicted by a life-threatening illness. Potentially eligible applicants include 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.

Compliance Considerations /

Although emergency and hardship grants are 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 this type of support. Foundations established by Foundation Source are permitted by their charter documents to make these emergency and hardship grants to individuals.

It is possible for a foundation to make emergency and hardship grants to individuals without advance IRS approval, providing the following conditions are met:

- Grants are made in a fair and even-handed way
- The criteria used to select one grant recipient over another relates to the purpose of the grant. For instance, hardship grants might be given to applicants showing the greatest financial need, while emergency grants might be given to applicants showing the most urgent need
- Basic record-keeping documentation is completed showing how and why a particular household or individual was selected for assistance

A grant may not be conditioned on it being used for travel, study, or similar purposes, like attending school, without IRS approval.

Foundation Source's process is designed to ensure these standards are met. Among other things, the application process uses specially designed forms that document 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. The forms, which are available through the client's Private Client Advisor, enable payments to be made either directly to the individual applicant or to a third party creditor to whom the applicant has a financial obligation such as a utility company, landlord, or healthcare provider.

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. For these reasons, relief funds are often established in the aftermath of a disaster to benefit the victims of that disaster as well as future disasters. For example, a charitable class composed of "the victims of September 11 and of future terrorist attacks" would be open-ended because the exact number of future victims cannot be quantified.

If a foundation were to make grants only to people known to its board, the class would not be sufficiently large or open-ended. Therefore, a foundation should consider developing 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.

Grants to individuals provide a unique opportunity for foundations to help those who have fallen on hard times reclaim their financial security and get relief from the physical and mental trauma caused by a life-threatening illness.

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Helping Families Avoid Homelessness

Our clients, Barbara (“Barb”) and Stephen Miller, have put the ability of private foundations to make emergency and hardship grants to individuals to inspired use, preventing individuals and families from becoming homeless.

The Millers learned that discrete, one-time problems were often enough to plunge even stable, working families into crisis, often resulting in homelessness. Barb explains: “Our typical client is a single mother who has a job, some sort of assistance for housing or subsidized housing, and perhaps receives food stamps. If something happens—the car breaks, or a child gets sick—then the mom has to miss work for a couple of days, causing her to fall behind on her rent.”

To prevent this downward spiral, the Millers make a one-time grant of less than \$1,000 directly to the individual. Because they intervene at the crisis point, they enable recipients to stay in their homes. “If we fix the car or pay the rent, they’re not up against a five-day eviction notice,” Barb says.

The foundation’s work has produced astounding success rates. In the past four years, the foundation has helped over 600 individuals and achieved lasting impact. Follow-up reports indicate that after one year, over 90 percent of grant recipients were still stable.

So, how did a family foundation accomplish all of this? “We came to Foundation Source with this idea for an emergency fund and asked how to do it,” Barb says. “Foundation Source helped us structure the fund. They set up the application process, gave us the mechanism to grant to individuals, and disbursed the payments.”



HAVE A QUESTION?

Call 800.839.0054 or send us an email at info@foundationsource.com.

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