FOUNDATIONSOURCE

KEY TAKEAWAYS

Differentiated Giving:

6 Little-Known, Effective Strategies for Private Foundations

Most people know that foundations provide funding to public charities whose work they support. While that's true, private foundations can do even more to maximize their impact with unique (yet sometimes underutilized) giving strategies—as long as they follow IRS rules and regulations. By getting creative, foundations can increase the types of activities they fund, expand the number of organizations they give to, and perform charitable work directly.

At a recent webinar, Foundation Source philanthropic experts shared some of these strategies and the rules around them. These are **six** key takeaways from the discussion.

1 Leveraging Expenses Creates Many Possibilities for Foundations

Each year, foundations must distribute at least 5% of the previous year's assets, also known as the minimum distribution requirement (MDR). What some people may not know, however, is that the 5% payout requirement includes both distributions for charitable work as well as the expenses involved in running the foundation. Salaries, benefits, professional fees, travel expenses, general overhead, and office supplies are examples of expenses. Charitable expenses that advance the foundation's mission, such as funding a research study or producing a documentary, can also count toward satisfying the MDR. On the other hand, investment advisory and bank fees do not. They are considered investment expenses.

2 Carry-Forward Distributions Create a Cushion in Underperforming Years

In years when a foundation distributes more than 5% of its assets, it can roll the excess amount forward for up to five years and apply the amount to help meet the MDR in years it may want to distribute less from the endowment for financial or strategic reasons. For instance, in years when markets overperform and you anticipate a higher distribution in the following year, it can be a good idea to prepare by boosting distributions in the current year.

3 Program-Related Investments Give Foundations Flexibility for Giving

Grantmaking isn't the only way that foundations can support charitable work. They can also use program-related investments, or PRIs, to support public charities through loans and loan guarantees, or make equity investments in for-profit organizations that align with and advance the foundation's charitable mission.

Some PRI dollars may be recoverable and recycled into additional distributions without depleting a foundation's asset base, further maximizing a foundation's impact. Best of all: PRIs count toward MDRs.

4 Foundations Can Grant Directly to Individuals or Families

In addition to giving to a nonprofit to provide aid to individuals or families, private foundations can also give directly to individuals or families who fall in certain charitable classes. Grants to individuals (GTIs) allow foundations to be responsive and get aid directly to people facing hardship and emergencies, such as natural disasters. It also facilitates gifts to people who aren't connected with a nonprofit and who might not otherwise receive aid.

Other types of GTIs are scholarships and prizes. While some GTIs may require advance IRS approval, the following three conditions can help you remain compliant: no strings attached to them; they don't go to a disqualified person, such as a foundation insider; and the foundation creates a mechanism to get the word out about applying.

5 Foundations Can Take a Hands-On Approach with Direct Charitable Activities

In addition to supporting public charities, some foundations choose to carry out their own programs in a hands-on way without changing their legal structure. Foundations are in a unique position to do this. They often have the right connections in their network or they may see an unfulfilled need and recognize their own ability to make an impact. For example, instead of giving to a literacy organization, a foundation can organize its own events, provide training for teachers and parents, and distribute books directly to emerging readers. One note of caution: DCA expenses must be tracked and reported separately on a foundation's tax returns.

6 U.S. Foundations Can Leverage Opportunities to Give Internationally

Foundations aren't limited to giving to domestic charities. They can also support work internationally. There are four main ways to give internationally:

- **U.S.-based "Friends of" organization:** These are domestic organizations that exist to support one or more foreign organizations, such as Médecins Sans Frontières/Doctors Without Borders.
- **Domestic partner:** These organizations act almost like donor-advised funds by facilitating support to foreign organizations, allowing foundations the simplicity of giving to a U.S. public charity.
- **Equivalence determination:** This is a legal opinion that the intended recipient, a foreign organization, is the equivalent of an IRS-approved public charity.
- **Expenditure responsibility:** By using this IRS process, foundations ensure that granted funds are used for charitable purposes through documentation.

Want to hear even more insights? Tune in to the webinar replay to hear about these strategies in greater detail.

HAVE A QUESTION?

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

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