

KEY TAKEAWAYS

# Exploring Grants to Individuals:

## Clearing Up Misconceptions and Compliance Considerations for Foundations



**W**hile it's commonly known that private foundations can grant to charities, disaster relief and nonprofit organizations, many donors and advisors aren't aware that foundations can also make direct grants to individuals (GTIs) to provide immediate help in times of crisis and emergency. GTIs can also provide hardship assistance such as debt relief, and they can be given as scholarships, awards and even prizes.

Foundation Source's Chief Legal Officer, Jeffrey D. Haskell, and Deputy Legal Officer, Jennifer Bruckman-Gorak, recently presented a webinar hosted by *Trusts & Estates* magazine to clear up common misconceptions about granting to individuals and to explore special considerations when doing so. Susan Lipp, editor-in-chief of *Trusts & Estates* magazine, moderated the discussion.

These are the four key takeaways from the presentation.



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## Granting to Individuals is a Unique and Effective Way for Foundations to Make Direct Impact

Private foundations are increasingly making GTIs to expedite their assistance and cast a wider net of charitable support. To grant directly to individuals and families, foundations do not need to set up a separate nonprofit, and they don't always need to seek prior approval from the IRS. Plus, they have full control over who will receive support. (By contrast, when a foundation grants through a public charity, the charity selects the grantees.) The support foundations can provide with GTIs is more immediate and impactful because there's no middleman (a public charity) involved.

For disaster relief grants in particular, there may not even be a public charity serving the impacted region, or if there is one, it might have high administrative costs, which a foundation can circumvent by making GTIs. Further, such a charity might be stretched too thin so a foundation can help to fill in the gaps with GTIs.

Our private foundation clients took advantage of GTIs in 2020 to help address the emergency and hardship scenarios due to the COVID-19 pandemic shutdowns. We then observed a resurgence of them in 2022 in response to challenging macro-economic conditions, and again in early 2025 in the wake of the southern California wildfires.



## Foundations Can Give Creatively with Grants to Individuals

Making GTIs for out-of-the-box projects underscores the tremendous flexibility that private foundations offer for creative giving. With GTIs, foundations can support projects aimed at enhancing an individual's skill or talent such as writing a textbook, composing a musical score or choreographing a dance recital.

GTIs even offer an easier way to give internationally. As an alternative to granting to foreign charities directly, which requires extensive due diligence and oversight procedures, foundations can make simple, direct grants to a national, regional or local government anywhere in the world as long as the grants have a charitable purpose, such as disaster relief.



## The Rules Around Grants to Individuals Vary

Some types of GTIs need advance IRS approval and others don't. Two types of GTIs that do not require IRS approval are grants designed to alleviate human suffering, such as those given in the aftermath of a natural disaster, and grants that are made in recognition of past accomplishments, such as an award for writing a brilliant and original poem.

GTIs that do require advance IRS approval include scholarships or fellowships as well as grants made to achieve a specific objective, produce a report or similar product that will be delivered in the future. Finally, GTIs made to improve or enhance a literary, artistic, musical, scientific, teaching or similar capacity, skill or talent require IRS approval, too.

Regardless of whether IRS approval is needed or not, these rules govern all GTIs:

- Grants can't be made to the foundation's disqualified persons, (aka "insiders" such as directors, officers, trustees, substantial contributors and certain family members of those persons), which would constitute self-dealing.
- Grantees must come from a broad charitable class—a group of people that's large enough or sufficiently open-ended to ensure that the number of people in the class cannot be reduced to a fixed list.
- The selection criteria must be related to the purpose of the grant.
- Grantees have to be selected on a non-discriminatory basis.
- Foundations must publicize the programs so individuals other than the foundation's own officers and directors know about them.



## Documentation of Grant Recipients and Grant Activity is Required by the IRS

When making GTIs, foundations are expected to document their eligibility criteria, selection process, OFAC screening, the fact that the recipients were not foundation insiders, and any additional due diligence the foundation may have conducted. In the context of a scholarship, selection information might include a record of the grant recipient's grades. For hardship assistance, it would include recording the grant recipient's severity of financial need. For emergency assistance, it should include a description of the emergency experienced by the applicant.

**To learn more about these key takeaways and other important insights, [check out the full conversation here](#). Check out our [blog](#) and [white paper](#) about GTIs as well.**

## ABOUT FOUNDATION SOURCE

**Foundation Source is the leading provider of philanthropic software and services.**

At the forefront of PhilTech, Foundation Source is the partner of choice for flexible software and services that offer end-to-end support for private foundations, donor-advised funds and planned giving. We offer a range of purpose-built, cloud-based platforms that facilitate all stages of giving and a configurable suite of administrative, compliance, tax, and philanthropic advisory services for donors, nonprofits and charities, and professional advisors, including RIAs and financial institutions serving wealth management and private banking clients.

**With 70 years of combined experience, Foundation Source empowers people and companies to create a better world through philanthropy.** We support more than 4,000 charitable organizations, administer more than \$26 billion in foundation assets, and facilitate more than 120,000 grants and planned gifts annually.

## HAVE A QUESTION?

Call 800.839.0054 or send us an email at [info@foundationsource.com](mailto:info@foundationsource.com).

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