

Private Foundations Bulletin

Emergency Grants to Individuals

Many private foundations have increased and expedited their grant-making efforts as a result of the economic impact of the COVID-19 pandemic. While these grants have primarily been made to 501(c)(3) public charities, there are other options available to provide aid to those in need. Oftentimes overlooked are grants made directly to individuals. While less common in the private foundation community due to fear of violating IRS (Internal Revenue Service) regulations and an overall lack of familiarity with this practice, it is still a viable alternative to get resources directly to those who need them.

There is no shortage of individuals who have been deeply impacted by job loss, reduced wages, medical bills and/or other significant struggles as a result of this pandemic. As long as the foundation's documents do not prohibit these types of grants and specific criteria are followed, the foundation is able to provide emergency need grants directly to individuals.

Advantages

Emergency need grants allow private foundations to identify needs in their communities and rapidly deliver help precisely where and when it is needed. Some advantages of a private foundation making emergency grants to individuals include:

The private foundation is able to meet unique local needs – Private foundations may be in tune with the needs of its immediate community and be more impactful in identifying and executing responses on a more timely basis to those needs.

Dollars go further – Grants to individuals bypass any intermediary, resulting in every dollar passing directly to the individual in need as opposed to having some percentage used for administrative purposes.

Control over recipients – The foundation can select the grantees.

Criteria

Private foundations may be able to make emergency grants directly to individuals if the request meets the charitable purpose, charitable class and needy or distressed test criteria. As long as these criteria are met, the IRS permits private foundations to make hardship and emergency grants to individuals without seeking prior approval.

Charitable Purpose

The grant must be for a "charitable purpose." A charitable purpose as a result of a disaster could be individuals who require the following:

- Temporarily in need of food or shelter,
- Temporarily unable to be self-sufficient or meet basic needs (e.g., financial hardship, medical emergency),
- In need of long-term assistance (e.g., housing, childcare),
- In need of counseling,
- Objectively needy or distressed.

The grant purpose must also fall in line with the foundation's documents and must not be considered a "private benefit" or constitute "self-dealing."

Charitable Class

Additionally, recipients must be part of a "charitable class." This class must be large enough that individual beneficiaries cannot be pre-identified or must be sufficiently indefinite that the population benefits from the assistance provided, rather than a pre-selected group. In cases where the choice of beneficiaries is more limited, the individuals eligible for assistance must be indefinite. To meet the indefinite criteria, the assistance must be open-ended and include individuals affected by the current disaster as well as any future disaster.

Needy or Distressed Test

Finally, the foundation must make an evaluation or assessment regarding whether or not the individual requesting assistance is, in fact, in need of the assistance at the time the grant is being made. There exists no automatic right to the assistance as the individual must show that there is a clear and present need.

Recordkeeping

An additional advantage is that the foundation has the ability to set its own standards for how an individual is determined to be in need. The foundation may accept applications for the aid and require evidence of income, job loss and circumstantial expenses.

While grants may likely be monetary in nature, they can also be in-kind, such as food and supplies.

Similar to grants made to public charities during times of increased need, private foundations may have the ability to qualify for a reduction in documentation. Additionally, the foundation may not be required to maintain need determinations on an individual basis. However, in the event of long-term and/or on-going grants (rent, for example), such grants would require more detailed recordkeeping such as:

- Names and addresses
- Grant amounts
- Purpose of grant
- Selection criteria
- Documentation of relationship between recipient and foundation and related family members

Under these circumstances, there is no requirement that the foundation track or report how the recipient spent the emergency funds. In addition, the foundation does not have the ability to set stipulations as to how the funds will be utilized by the individual.

Help for Employees through Corporate Sponsored Foundations

Companies may make grants to employees through a corporate private foundation or corporation donor-advised fund as long as the payments do not benefit the employer. If applicable, this type of employer-sponsored assistance program is an option to help employees who have been negatively impacted by COVID-19. For more information on that assistance please reference our [March 2020 Private Foundations Bulletin](#).

Contact Us

We welcome the opportunity to answer any questions you may have related to this topic or any other accounting, audit, tax or advisory matters relative to private foundations. Please call 212.286.2600 or email any of the Private Foundation Services team members below:

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