EMERGENCY GRANTS TO INDIVIDUALS

How to Deliver Funds Directly to People in Need

As we confront the ravages of the coronavirus pandemic, a unique private foundation capability has become extremely useful: the ability to make emergency grants directly to individuals.

Although private foundations routinely grant to public charities, they are also empowered to make emergency grants to individuals. Unfortunately, this capability is somewhat underutilized. Many foundations aren’t aware that they can make these grants; and those that are aware may avoid making them for fear of running afoul of IRS regulations. However, as long as the foundation’s charter documents don’t prohibit these types of grants and certain procedures are followed, a foundation can make emergency grants without seeking prior approval from the IRS.

Emergency grants can be given to individuals and households that have experienced emotional, physical, and financial devastation due to some kind of life-altering event. Whether they’ve been impacted by a hurricane, fire, tornado, violent crime, or disease, such as COVID-19, they may suddenly find themselves in need of support to cover their basic needs.

ADVANTAGES OF EMERGENCY GRANTS

In certain circumstances, making grants directly to individuals may offer some advantages over donating funds to a public charity:

- The foundation itself can select the recipients of the aid. Instead of outsourcing the selection process to a nonprofit organization, the foundation retains control.
- Because there’s no intermediary organization, the foundation can distribute the funds immediately and have a direct impact.
- It can fill gaps in coverage. In many parts of the country, there may not be a nonprofit organization with a strong “boots on the ground” presence. By contrast, a foundation with deep roots in the community may be more effective at identifying and meeting local needs.
- There’s no waste. By bypassing any sort of middleman, every penny goes to relief.
- It maximizes funding. When an individual donor writes a check, it’s drawn on taxable income. However, a foundation uses tax-advantaged funds to make these emergency grants, so its dollars go further.

In sum, emergency grants empower foundations to identify needs in the communities they know best and rapidly deliver help precisely where and as it’s needed.

UNDERSTANDING THE BASICS

Here are IRS guidelines for these grants:

- The grant must be made for a charitable purpose. (Emergency grants intended to alleviate human suffering fulfill this requirement.)
- The foundation should have a fair and even-handed way of selecting beneficiaries and assessing need. Note that funding decisions should be made on an objective and nondiscriminatory basis that precludes discrimination against groups that have been subject to prejudice, such as gender, race, religion, sexual orientation, and the like.
The foundation has to comply with record-keeping requirements. The IRS requires a foundation to record, among other things:

- The name and address of each recipient.
- The grant amount.
- The purpose of the grant.
- How the foundation became aware of the recipient’s needs, including the identity of any referral source.
- The criteria applied to select the grant recipient over others.
- The lack of relationship between the grant recipient and those serving on and funding the foundation as well as their family members.

As with all foundation transactions, disqualified persons (insiders) are not eligible for support because they are not allowed to reap a financial benefit from their foundation. If they do, they’re personally subject to tax penalties. Disqualified persons include those who run the foundation, such as their directors, officers, trustees, substantial contributors to the foundation, and the family members of all of the above.

EMERGENCY ASSISTANCE RECIPIENT QUALIFICATIONS AND GRANT USE

In an emergency, people who might ordinarily be self-sufficient can find themselves in need of help. Fortunately, eligibility for emergency grants is determined by the urgency of an applicant’s need, not his or her financial situation. In an emergency, everybody is equal. Since these grants are not based on financial need, the IRS doesn’t require income or asset verification. The recipient just needs to temporarily lack the resources to be self-sufficient as a result of the emergency.

On this point, it’s important to keep in mind that emergency assistance grants can’t be given to anyone merely because he or she is a victim of a disaster. The decision to provide funding has to be based on an objective evaluation of each person’s needs at the time that the grant is made along with the factors that influenced the foundation to select one person over another.

For example, a foundation can’t provide support to anyone who lives in the U.S. simply because the president declared coronavirus a national disaster. Even though an applicant may be out of work, burdened with onerous medical bills, and suffering mentally or physically, only those with an actual, assessed need can be given emergency assistance. Furthermore, the amount of the grant should take into account the applicant’s level of need. Some factors the foundation might take into consideration would be whether a potential recipient:

- Lacks a “safety net” that could provide assistance (nearby friends, family).
- Has a large number of dependents.
- Is impacted by grave personal illness or illness of a family member.
- Struggles with physical disability, psychological trauma, etc.

In making these grants, a foundation can’t stipulate precisely how the recipient should use the funds. Support must be provided with “no strings attached.” Recipients can use foundation funds to cover whatever they view to be their most pressing needs—food, clothing, transportation, professional counseling, etc. If the recipient happens to use the money to buy a carbon fiber racing bike, however, there’s nothing that the foundation can do. There is no requirement that the foundation track or report how the grant recipient spent their emergency funds.

FINDING AND SELECTING QUALIFIED RECIPIENTS

To ensure that the funds are awarded fairly and in compliance with IRS regulations, the foundation has to determine both eligibility and selection criteria for recipients. But first, the foundation must define which populations can be considered for assistance.

Creating an Open-Ended Pool

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 individuals comprising the class cannot be reduced to a fixed list.

In practice, this means that the COVID-19 patients presently admitted to a specific hospital would not be “open ended,” because that’s a fixed list of individuals. However, the current and future
COVID-19 patients in a defined geographical area, like Fairfield County, would be open-ended because it's impossible to predict who will or will not become infected with this virus.

**Drafting Relevant Selection Criteria**

It isn't enough to merely have an open-ended class. The foundation must also have criteria for selection that is related to the purpose of the grants. For example, relief can't be restricted to people with blue eyes and beards because such criteria is not related to the purpose of these grants, which is to relieve human suffering.

Many foundations will only have sufficient funds to make a handful of emergency grants. That's not an issue, because a low volume of emergency grants doesn't necessarily imply the lack of a charitable class. Although it's important to ensure that a large enough group of individuals would be eligible to receive grants, since few (if any) foundations will have sufficient resources to help every eligible applicant, it is a good idea to also develop criteria for winnowing down the list of eligible recipients. Many foundations pare down their lists by only assisting those who demonstrate the direst need.

**Expanding the Foundation’s Reach**

If a foundation makes relatively few emergency grants—and only to people known by the foundation’s managers (such as gardeners, housekeepers, etc.)—it can be difficult to ensure that the pool of eligible grant recipients is truly open ended and the selection process fair. Therefore, if a foundation makes only a few grants, it’s important to make at least some grants to individuals not personally known to the foundation. To spread the word, foundations often establish a referral channel, such as social workers, clergymen, health care providers, or others who are regularly in contact with people in need.

**IN-KIND GRANTS**

Emergency grants don’t only have to be cash—they can also be in-kind support. In a nod to practicality, the IRS doesn’t expect the same degree of record-keeping for in-kind support in the midst of a disaster. For example, if foundation members hand out bottled water, blankets, masks, medical supplies, etc., they are not expected to record the name of every single recipient. Rather, they should just maintain a simple journal recording dates, times, locations, the approximate number of people helped, etc. Here’s an example of what such a journal entry might look like:

> January 12, 2025, the corner of Maple and Vine Streets, Fairfield, CT: bottled water, reusable masks, and granola bars distributed to approximately 75 individuals between the hours of 10 am and 12 pm.”

Once you understand the rules, we hope you agree that providing emergency support to individuals out of your foundation is not only straightforward but is eminently doable. During challenging times like the current coronavirus pandemic, private foundations have an especially vital role to play. Unencumbered by bureaucracy and armed with tools such as emergency grants, they can respond quickly, taking bold action to address needs that are too small or too local to attract the attention of larger funders. We are fortunate that so many of them have joined the fight.

**Emergency Grants in Action**

One of our clients, The Clare Rose Foundation, wanted to support teaching artists who suddenly found themselves out of work during the current pandemic. To help them out, the Foundation decided to make emergency grants of up to $1,000 each. The grants, which count toward satisfaction of the Foundation’s minimum distribution requirement, are not taxable for the recipients. After review by Foundation Source’s legal team, the foundation published the application on their website and it met with such a positive response that in just a few days, the Foundation made 43 emergency grants.
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Have a question? Call 800.839.0054 or send us an email at info@foundationsource.com.

55 Walls Drive, Fairfield, CT 06824
T 800.839.0054
F 800.839.1764
www.foundationsource.com

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