

# 10 EXCITING CAPABILITIES OF CORPORATE FOUNDATIONS

Making grants to nonprofits is just the beginning

**C**ompanies have long played an important role in their communities, sponsoring everything from the local little league team to soup kitchens and cultural institutions. Increasingly, however, companies are discovering that philanthropy isn't just good corporate citizenship; it's also good business, supporting a vast array of objectives: raising brand awareness, enhancing employee engagement and retention, and cultivating goodwill. Because so much financial and reputational capital is riding on their philanthropic initiatives, corporations are increasingly interested in strategies that set their giving programs apart.

For these companies that seek to differentiate their giving programs, a corporate foundation may confer distinct advantages. The IRS allows corporate foundations wide latitude to undertake creative, inventive, effective philanthropy that can't be accomplished by other means. In practice, this means that corporate foundations aren't limited to making grants to 501(c)(3) organizations. Whether making a tax-efficient donation to an orphanage in India that has never heard of an IRS 501(c)(3) designation or a hardware store in Newark running a safe trick-or-treating program for kids in tough



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neighborhoods, the IRS allows corporate foundations to fund most any charitable cause. And because a corporate foundation allows for consistent giving, even in lean years, the parent company can fund signature charitable programs that, over time, become closely associated with its brand.

In this article, we outline ten capabilities of this powerful charitable vehicle.



## 1 PROVIDE DIRECT SUPPORT TO EMPLOYEES FOR EMERGENCY RELIEF

When disaster strikes, corporate foundations typically provide relief through grants to public charities, like the Red Cross and Salvation Army, but corporate foundations can also make grants directly to employees and their families in times of need. In the event of a "qualified" federal disaster (i.e., one that's been declared by the president or FEMA), corporate foundations are permitted to provide funds for emergency relief, without advance approval from the IRS. However, because a corporate foundation is prohibited from making grants that could be a substitute for an employee benefit or a means to recruit or retain a workforce, there are important compliance considerations, such as the need to set up an independent selection committee and the limit on the percentage of employees who can be given relief.

## 2 RUN CHARITABLE PROGRAMS

Although corporate foundations typically make grants to public charities in support of programs, they can also conduct their own charitable programs directly, without setting up a separate nonprofit or converting to an operating foundation. Called direct charitable activities (DCAs), and carried out by the corporate foundation itself, this brand of "hands-dirty" philanthropy is ideal for companies that want to furnish both financial and human capital (e.g., expertise, manpower, connections) for their good works.

Examples of successful direct charitable activities we've seen include:

- Operating a winter coat drive
- Running a small mathematics museum to illustrate to children the importance of math in everyday life
- Training paroled prisoners to code so they can successfully rejoin the workforce

For ideas big and small, direct charitable activities enable corporate foundations to draw on the company's unique resources and skills, producing results that grant dollars alone wouldn't buy.

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## 3 DONATE INTERNATIONALLY

Making grants outside the United States holds great appeal for corporations with locations or vendors in other nations. Although a U.S. company cannot claim a charitable contribution deduction for a grant to a foreign charity, it may do so through a corporate foundation. A corporate foundation may grant directly to overseas charitable organizations, providing a tax-efficient means of sending aid across national borders. Corporate foundations are entitled to make these grants even when there is no IRS-recognized 501(c)(3) entity to serve as an intermediary. For example, some foreign charities are automatically recognized by the IRS because of their special status (e.g. the United Nations); others have set up a U.S.-based "friends of" organization that is a recognized 501(c)(3) public charity that may accept funds on their behalf. But when there's no easy route to channel funds to a favorite organization overseas, corporate foundations may still make a grant by providing additional oversight, either by finding the organization to be "equivalent" to a U.S. public charity or by exercising "expenditure responsibility." These philanthropic alternatives have enabled our clients to support a university in Singapore, a microfinance organization in Peru, and a home for AIDS orphans in East Africa, among many others.

## 4 PROVIDE PROGRAM-RELATED INVESTMENT LOANS (PRI LOANS)

Besides making grants, a corporate foundation can make loans to charitable organizations and use the proceeds from the repayment of those loans to make other charitable donations. And just like grants, PRI loans count towards the foundation's 5% distribution requirement. For example, if the local library wanted to bring children's literature to an underserved neighborhood but lacked the credit rating to secure affordable financing, a corporate foundation could provide a low- or no-interest, one-year loan, enabling the library to purchase a truck and reconfigure it as a "bookmobile." At the end of the year, if the loan were repaid in full, the library would be more creditworthy, and the foundation could "recycle" those funds by loaning them to other organizations.

## 5 GIVE PRI LOAN GUARANTEES

Loan guarantees are another way to provide charitable support, often without spending a dime. One company wanted to help a local food pantry, a public charity, expand its kitchen space and fix a leaking roof. Rather than loaning the food pantry the funds directly, the foundation arranged a loan guarantee at a local bank, enabling the pantry to finance their construction costs with far more favorable terms than they might otherwise have received based on their own credit.

## 6 MAKE PRI EQUITY INVESTMENTS

Few companies realize that it is permissible to make equity investments in for-profit commercial ventures for charitable purposes out of the foundation's grantmaking budget. Furthermore, these investments count toward the foundation's 5% minimum distribution requirement. For example, The Bill & Melinda Gates Foundation invested \$10 million in Liquida Technologies, a company whose technology accelerated the development of vaccines for diseases, such as malaria, that primarily affect people in the developing world. Although Liquida had already attracted investment from traditional investors, by becoming a major shareholder, the Foundation had standing to persuade Liquida to also invest in therapies that address the unmet vaccine needs of those living in the world's poorest countries.

## 7 GIVE HARDSHIP AND EMERGENCY GRANTS

Corporate foundations are permitted to provide funds directly to individuals and families for emergency relief or hardship assistance in the wake of natural or man-made disaster (e.g., hurricane, war, and famine), loss of employment, or illness. Because corporations often have deep roots and a network of contacts in the communities in which they do business, they are poised to deliver help faster and more efficiently than may be possible for large, national relief agencies.



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## 8 AWARD SCHOLARSHIPS, EVEN TO EMPLOYEES AND THEIR FAMILIES

With advance approval from the IRS, corporate foundations are empowered to design their own signature scholarships and fellowships, and hand-pick the recipients. Many foundations leverage this capability to foster talent in key areas of corporate interest, boost the number of women or ethnic groups in professional ranks, or improve the lives of those who are typically passed over for academic awards. Under certain circumstances, a corporate foundation can also award scholarships to the company's own employees and their children. These "employer-related scholarship programs" are subject to regulations that ensure they are used for charitable purpose and not as a tax-free way for the corporation to recruit/retain employees, enrich executives, or reward performance. However, these rules are not particularly onerous, and because employer-related scholarship programs are a powerful way to make education more accessible, they remain one of the most popular uses of a corporate foundation.

## 9 PAY PROGRAMMATIC EXPENSES

Most corporate foundations want as much money as possible to go to their favorite charitable causes. But to make the best use of the foundation's charitable dollars, sometimes it's necessary to spend money in order to save it. For example, the IRS recognizes that research and education to inform a corporate foundation's philanthropy is vital and considers such up-front due diligence a legitimate expense. By undertaking research before putting dollars out the door, the foundation can ensure the success of its programmatic investments. Allowable expenses include hiring subject matter experts and other consultants, conducting site visits to explore and understand the work of potential grantees, and attending conferences or seminars for professional development in the foundation's areas of interest.



## 10 MAKE SET-ASIDES

As long as they meet certain requirements and obtain advance approval, the IRS allows corporate foundations to "set aside" funds in order to build up the reserves necessary for an ambitious future project. Those set-aside funds may be counted toward satisfying the corporate foundation's minimum distribution requirement. For example, if a foundation wants to undertake a large initiative (e.g., the construction of a building), the foundation could apply to the IRS for permission to set aside funds every year over five years.

A corporation can achieve greater impact and closer alignment between its philanthropy and its corporate objectives by using all of the tools in its philanthropic toolbox: grants, program-related investments, scholarships, direct charitable activities, and more. If you'd like to explore how a corporate foundation can help you put all of these tools at your disposal, contact Foundation Source.

And if you already have a corporate foundation, ask us how we can provide everything from outsourced administrative support and program design to compliance oversight, enabling you to employ every IRS-approved capability without staffing up unnecessarily or adding expensive overhead.

## ABOUT FOUNDATION SOURCE

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Now in our second decade, Foundation Source provides its services to more than 1,500 family, corporate, and professionally staffed foundations, of all sizes, nationwide. We work in partnership with wealth management firms, law firms, accounting firms, and family offices as well as directly with individuals and families. Foundation Source is headquartered in Fairfield, Connecticut.

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

55 Walls Drive, Fairfield, CT 06824

**T** 800.839.0054

**F** 800.839.1764

**[www.foundationsource.com](http://www.foundationsource.com)**

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