

# Protecting family foundations

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**Question:**

What are three ways family foundations can avoid trouble with regulators?

**Answer:**

\* Let educational institutions manage scholarship selection.

Family Foundations frequently want to get involved in scholarships as a way to give back to their community and to help young adults that need an extra hand.

Yet scholarships are an area of considerable abuse and are often the first area that the IRS reviews during an audit.

Family foundations are prohibited from making grants to individuals without special permission from the IRS. And if the IRS gives permission, foundations must follow many rigorous procedures.

To avoid trouble, give a grant to your favorite educational institution for scholarships and let the institution manage the selection process. In this way, you remove yourself from the area of greatest abuse.

When you set up the relationship with the education institution, your foundation can be involved in establishing the purpose and the criteria of the scholarship but, on an ongoing basis, let the university or school manage the process of picking the awardees each year.

\* Be wary of pledges.

Foundations cannot make grants that fulfill the personal pledge of any person, whether the person is a board member, staff person or family friend.

The assets of a foundation were created originally with contributions that were considered charitable. If the assets are used to pay off the debt of an individual, they clearly were not set aside for the public good.

If your foundation allows board members to recommend grants, ask them to certify that the recommended grant is not fulfilling a personal pledge.

Similarly, when you award the grant to a nonprofit, ask the nonprofit to certify that the grant will not be used to fulfill anyone's personal pledge.

\* Decline benefits.

A foundation cannot make a grant for membership in a nonprofit if the membership will result in significant benefits to a staff person or board member of the foundation.

Take an example where a foundation awards a grant to the local symphony or opera for high-status membership, such as "Gold Level," and this membership brings with it free tickets to events or better seats at a performance.

These benefits cannot be used by staff members or board members, since the entire grant is clearly not being used for charitable purposes.

Family foundations should steer clear of this difficult area by insisting that its grants be used solely for charitable purposes and, if necessary, they should decline any benefits that might normally accrue to such a grant.

Note: These are general guidelines and are not intended to provide the specific legalities of each issue. If you have questions, consult your legal counsel or the Council on Foundations.

-- Compiled by Laura Newman

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