|  |  |
| --- | --- |
| Date: | April 24, 2018 |
| From: | Tim Racer |
| To: | File |
| Subject: | Evaluating Charitable Activities in Entrepreneurship |

**Entrepreneurship And Charitability:**

The IRS and other regulators generally view helping an as serving private interests. Thus, serving entrepreneurs by itself does not qualify as “charitable” activity.

There must be something more- some specific underlying charitable purpose- in order for the Foundation to provide funding for entrepreneurship. This memo outlines some of the general considerations the Foundation evaluate as it attempts to determine if a specific grant request involves the support of an activity that is charitable. So long as a charitable purpose is accomplished, and any private benefit (e.g.- profit that a grantee may earn) is minimal and incidental to the accomplishment of this purpose, the Foundaiton may be able to make the grant.

**501(c)(3) Public Charities (and the government)**

Generally, a grant to a 501(c)(3) public charity or to a governmental entity is viewed as presumptively “charitable.” This presumption would negate the need for further inquiry unless the Foundation has information to suggest that the organization has used (or is likely to use) the grant funds in ways that exceed the scope of the organization’s IRS-approved tax exempt purposes. So, to the extent entrepreneurship, networking, economic development and the like are advanced through the IRS approved mission of a 501(c)(3) organization, charitability is probably not a concern. And the good news is that today, many organizations have been sanctioned by the IRS to pursue missions that directly support entrepreneurs and entrepreneurship.

**Direct Activities and Engagements with Other Than Public Charities:**

When the Foundation undertakes direct activities (e.g.- operates its own programs), or provides funding to an organization that is not a public charity (whether through an expenditure responsibility grant, legal agreement, program related investment, or otherwise), the specific charitable purpose must be clear and documented. Also, the program or engagement must be implemented with that charitable purpose as the primary, if not exclusive, objective. Other ancillary benefits of a “non-charitable” nature might result, but accomplishing the charitable purpose must be the initiative’s focus.

Some commonly stated goals/benefits for activities in the entrepreneurship space are the following:

|  |  |
| --- | --- |
| 1. Educational activities and programs (like running a seminar);
2. Advising/coaching individual business owners or managers;
3. Mentoring entrepreneurs;
4. Networking;
5. Economic development;
 | 1. Investing in a company;
2. Matchmaking for capital, sales, supplies, etc.;
3. Providing back-office services;
4. Research to advance education or science; and
5. Product development research by other than a public charity
 |

The challenge is that these activites standing on their own are not charitable activities. The lone exception may be educational activities so long as there is no profit earned by the organization conducting the educaitonal activity (e.g.- no admission fee, no “selling” of the organizaiton’s services to attendees, etc.).

However, any of the above activities may be considered “charitable” if the primary objective of that activity is one or more of the below:

1. **Educational activities** that are programs of instruction or training that (a) help participants improve skills or knowledge or develop new capabilities or (b) educate the public on subjects useful and beneficial to the community;
2. Focus on businesses that substantively operate in, employ, and serve clearly delineated **economically disadvantaged** geographic areas and populations;
3. Focus on **training/educating** people how to be mentors, coaches, and/ or protégés, with a focus on lessons and learning rather than on the impact on the economic success of the protégé or the business – also as distinguished from consulting;
4. **Research, study, or analysis** carried on in the public interest to enhance understanding and useful knowledge;
5. **Research, study, or analysis** of the impact or effects of certain conditions, relationships, and/or activities within a context of having a hypothesis, designing a study that controls for non-relevant potential indicators, implementing the study with rigor and discipline, being of limited time duration, and releasing results to the public (i.e., demonstration project);
6. **Program-related investments** the primary purpose for which is to substantially further charitable purposes and no significant purpose of which for the Foundation is the production of income or appreciation of value;
7. Services (e.g., back office support) provided for public charities at **substantially below cost** (usually at a discount of 85% or more);
8. Relief of the poor, distressed or underprivileged;
9. **Lessening the burdens of government** as evidenced by a formally declared initiative and expenditure of tax dollars (this purposes is almost never enough in isolation but usually is accompanied by another charitable purpose);
10. **Lessening neighborhood tension**;
11. Defending **human and civil rights** secured by law; and
12. Combatting **community deterioration** or **juvenile delinquency**.

By way of example, economic development would not be considered a charitable activity on its own. However, if the initiative focuses solely on economic development in an “economically disadvantaged” neighborhood (e.g.- option (b) above), the activity may qualify as charitable.

When making grants to support entrepreneurship, the Foundaiton will want to understand:

1. the specific charitable purpose (e.g.- which option a through l above) the grantee intends to accomplish through the grant;
2. How the grant activity being proposed (e.g.- the activity in 1 through 10 above) will accomplish that purpose; and
3. The private benefit that will result (e.g.- profit/gain for the grantee. This will need to be compared to the benefit that results from the accomplishment of the charitable purpose and the Foundation will need to believe the profit is both “incidental” to the charitable outcome and as minimal as possible.

But if an activitiy (1-11) accomplishes a charitable purpose (a-l) and private benefit is incidental (e.g.- non-existent or minimal), then an initiative can be supported by a private foundation.