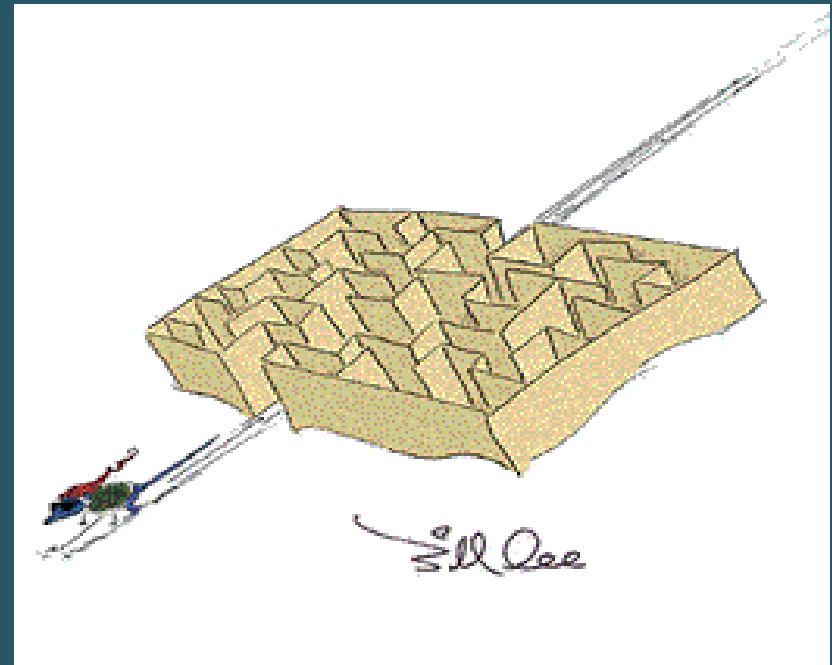


# Key Issues

- Self-Dealing
- Compensation
- Travel Expenses
- Sharing Resources
- Pledges
- Tickets to Fundraisers



# Self-Dealing

- No financial transactions with disqualified persons
- Disqualified Persons: Foundation managers, substantial contributors, family members of the above
- Major Exception: Compensation is allowed if
  - Reasonable and necessary
  - Personal services
- Penalties:
  - 5% on the self-dealer (10% in '07)
  - 2.5% on managers (5% in '07)



# Compensation

- Personal Services:
  - Banking, legal, accounting, investments
  - Not real estate management, interior decoration, most consulting
  - Narrow interpretation by IRS
- Reasonable: What similar people get paid for similar work in similar circumstances
- Necessary: Consistent with exempt purpose
- Reimbursement of expenses is permissible and is generally not compensation

# Determining Compensation

- Data – use appropriate comparables
- Decision by disinterested governing board or committee (where possible)
- Document, document, document

# Compensation Example

## Chief Executive Officer/ President of Family Foundation

Asset Group (in millions)	Salary		
	Median	Mean	Range
\$10 to \$24.9	\$ 77,175	\$ 86,618	\$46,350 to \$145,000

From Council on Foundations, 2005 Grantmakers Salary and Benefits Report

# Travel Expenses for Family

- Spouses and children are disqualified persons
- Paying their travel expenses is self-dealing
- Two Exceptions:
  - Family member has reasonable foundation duties
  - Treat reimbursement as taxable income to foundation director or staff person whose relative is reimbursed
- Expenses must be reasonable

# Sharing Resources



- Foundation can't pay DQP for services unless "personal"
- Payments to third parties ok
- Zero interest loan to foundation
- Records must be meticulous
- DQP can donate services
  - Valuation issues
  - No deduction for partial interests in property

# Paying Pledges

- Assuming a debt of a disqualified person is self-dealing
- Legally binding pledges may not be paid by the foundation
- State law determines whether a pledge is legally binding
- Be careful in communicating with potential grantees



# Tickets to Fundraisers

- Possibly self-dealing if used by a disqualified person
- Ticket may have some economic value
- Charitable dollars can't provide private benefit
- No violation if staff has duty to monitor and evaluate
- OK if value treated as income
- No bifurcation permitted

