

December 2014 Nonprofit Newsletter

Program-Related Investments (PRI)

Program-Related Investments allow for a private foundation to use its capital to make investments in other nonprofit or for-profit companies to advance the mission of the foundation. There are 3 requirements for the investment to be considered a PRI:

1. The primary goal of the investment must be to further the charitable mission of the foundation;
2. The significant purpose of the investment must not be to generate income;
3. Accomplishing a prohibited purpose cannot be a goal of the investment.

The 4 most popular types of PRIs are: loans, guaranties, direct equity or convertible note investments, and private investment funds.

Loans are often used when a company has long-term capital needs and there is a path to repayment.

Guaranties are usually used to backstop borrowing.

Direct equity or convertible note investments are common in newly formed companies. The advantage of a PRI in this situation is

that the foundation can have an active voice in the growth and development of the future products, aligning them with the interests of the foundation.

Private investment funds attract multiple sources of capital to fund a common purpose. Collectively the fund will be able to provide a greater amount of assistance to a company to further the mission of those foundations.

An additional set of requirements exist and must be adhered to in order to avoid penalties:

1. The PRI will be treated as qualifying distribution;
2. The PRI will not be a taxable expenditure;
3. The PRI will not be a jeopardizing investment.

Funding Operating Costs

The Chronicle of Philanthropy reports that unrestricted funds and multiyear grants are continuously increasing. In fact, since 2011, foundations making multiyear grants have more than doubled: 58% compared to 28%. A study of 637 foundations found a 25% increase in the median level of grants specifically for operating support, indicating a \$2.7 billion increase in annual grants.

For the full article read [here](#).

Tax Deductions for Charitable Gifts Extends to April 15th

Both The House of Representatives and the Senate have failed to pass legislation on permanent tax breaks, including those dealing with charitable deductions. [The next Congress is left to decide the fate of these tax breaks.](#)

In addition, Congress is unlikely to pass a measure that would allow donors until April 15 of the following year to make charitable contributions. Under current law, donations must be made by December 31 to qualify for a deduction. Nonprofit organizations are divided on their position of this legislation. Some of the reasons for supporting a bill to extend the time of making a charitable contribution include:

- The opportunity for donors to examine their annual income and year-end tax liability. It is difficult for many wealthy donors to estimate their taxable income until after December 31st.
- Additional time for tax preparers to analyze what taxpayers should give to maximize their potential deduction.
- Smoothen the flow of donations to charities.

Critics present other factors to consider that could negatively impact donations:

- Any initial increase in donations from the extension would fizzle out as donors became accustomed to the new deadline.
- Donors may withhold gifts in anticipation of year-end financial data, causing organizations that rely on the gifts to wait longer.
- The holiday season encourages generosity that could be lost if the deadline was extended.

For more information, read [here](#).