



What Is Due Diligence?: The Things NPT Asks Before Approving Your Grant

By Ellen McGuinn, Chief Financial Officer

When you recommend a grant—whether it’s for \$250 or \$25,000—NPT’s grants team goes to work for you with our due diligence review process. Specifically, NPT’s team must answer two critical questions before approving a grant:

- 1. Is the grantee a public charity?** First, our team verifies that the organization you wish to support is an eligible grantee. Grantees generally must be tax-exempt under Section 501(c)(3) of the Internal Revenue Code and classified as public charities. If the grantee organization is located outside of the U.S., NPT must either obtain a legal opinion that the organization is the equivalent of a U.S. public charity (a process known as equivalency determination), or ensure that the grant is spent only for the charitable purpose for which it was made (a process known as [expenditure responsibility](#)). This involves obtaining expenditure reports from the grantee and providing information on the grant to the IRS. Due to their complexity, international grants require four to six weeks to process, compared with approximately one week for grants to domestic organizations.
- 2. Will the grant fulfill a charitable purpose?** When donors make grant recommendations for unrestricted purposes, the process is relatively straightforward; if the nonprofit is a recognized public charity, no further review is necessary. However, if the grant will support a specific event or if the grant could result in a benefit to the donor, NPT’s grants team must do additional research. For instance, a donor may wish to support the fundraising efforts of an individual participating in a 5K run for charity. If the individual entering the race is not related to the donor, the grant can be approved. If the race participant is the donor or an individual related to the donor, he or she must first meet the minimum fundraising requirement to enter the race before the grant can be approved.

One of the most common areas of concern is [split \(or bifurcated\) gifts](#) in which a donor’s gift supports a charity but also provides a personal benefit such as tickets or tables for a gala. This is not allowed by the IRS. Another area of concern is the use of donor-advised funds to satisfy donor pledges, which is permissible as long as the grant letter or check doesn’t reference the pledge. Grant funds also cannot be used to support political candidates or lobbying activities.

Conducting due diligence takes time and resources. With an NPT donor-advised fund, however, you can have confidence that our grants team will make sure that your grant recommendations comply with federal tax rules and go to work quickly to realize your philanthropic aspirations.

Ellen McGuinn is NPT’s Chief Financial Officer and Assistant Treasurer. Ms. McGuinn joined NPT in November 2016. She has more than 25 years of experience in finance and accounting, including 12 years in the nonprofit sector.

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