

## FAQs: Dogwood Health Trust, Grant Size & Tipping<sup>i</sup>

### What is tipping?

If Dogwood Health Trust (“Dogwood”) provides too much support to a grantee, it may cause that grantee to lose its status as a “*public charity*” and be reclassified as a “*private foundation*.” This is called “*tipping*.”

Tipping can adversely affect a grantee’s ability to carry out its important mission. If Dogwood is knowingly responsible for tipping, it can also be penalized by the IRS.

Dogwood is committed to supporting grantees of all sizes and from diverse communities within its 18-county and the Qualla Boundary region, but it does not want its support to cause harm to those community partners.

### What is public charity status?

All 501(c)(3) organizations are classified either as public charities or private foundations. Private foundations must follow much stricter rules than public charities, which can limit their ability to carry out their activities. It is also more advantageous for a donor, private foundation, or donor advised fund to contribute to a public charity rather than a private foundation. As a result, public charities generally have an easier time fundraising than private foundations.

Some organizations, like schools, hospitals, churches, and units of government are per se public charities. A few others derive their public charity status by virtue of a relationship with another public charity (this is known as a “supporting organization”). But most organizations must meet a “*public support test*” over a five-year rolling period (there are actually two different tests based on the nature of the revenue of the organization). If an organization fails this test two years in a row, it will automatically be reclassified as a private foundation.

### How does a grantee fail the public support test?

The public support test is computed and reported on Schedule A of the organization’s Form 990. The test can be very complex, but at its most basic level, it compares the ratio of “*public support*” an organization receives compared to its overall “*total support*.” In the case of a large grant (or multiple grants that add up to a large amount) from a private foundation, only a portion of the support (up to 2% of the organization’s total support) may be considered public support whereas the entire amount of the grant(s) is considered total support. As a result, a large grant from a private foundation to a small organization can cause that organization to fail to the public support test.

### How big of a grant is too big?

The public support test is complex and there are too many factors and unknowns (like future fundraising) that make it very difficult, if not impossible, to know how much support will threaten the public charity status of a grantee.

An IRS safe harbor permits Dogwood to make a grant that is equal to no more than 25% of the total support received by the organization over the prior four years. This safe harbor, however,

only protects Dogwood against potential penalties. It does not prevent Dogwood from inadvertently tipping the grantee. Moreover, this safe harbor is less meaningful for smaller community-based nonprofits with lower levels of support to begin with.

As a result, Dogwood may request that some potential grantees either (1) seek analysis from a CPA or tax attorney regarding whether a proposed grant would jeopardize their public charity status, or (2) seek a ruling from the IRS that the proposed grant would be an “unusual grant” and not be considered for the purposes of the public support test. In other cases, Dogwood Impact Officers may decide to undertake a case-by-case analysis of the potential grant, which may require revisions to the grant proposal.

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<sup>1</sup> This document is provided to the public by Dogwood Health Trust strictly for educational purposes. It is not intended to be tax or legal advice, and nonprofit organizations should seek advice from a qualified tax professional as to their own particular situations.